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ABSTRACT

This instructional guide adds two new sections to the original guide published in May 1982. The guide was designed to assist educators in teaching the topics of consumer credit and consumer credit protection to secondary and postsecondary students in various economics and business courses, as well as in adult and community education courses. The new sections can be used on their own or in combination with the other four sections comprising the original instructional unit. The first of the two sections focuses on the Truth in Lending Act, addressing the following topics: credit options, the provisions of the law, credit advertising, credit shopping, using open-end credit accounts, and economics of the Truth in Lending Act. The second section deals with the Fair Credit Billing Act, covering the following topics: assessing the correctness of a monthly credit statement, provisions of the law, correcting billing errors, credit card transactions, and special credit card/debit card rules. Each section includes directions for use, an introduction, a list of key concepts and definitions of terms, an answer key, and information sheets which may serve as masters for overhead transparencies or instructional materials for students. Pretests are also included to help instructors assess student knowledge and select appropriate sections and topics. Introductory material pertinent to the entire instructional guide and replacement pages for the first four sections are provided. (EJV)

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Federal Reserve Bank of Minneapolis

YOUR CREDIT RIGHTS

An Instructional Unit

on Consumer Credit Protection

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Enclosed are two new sections and several revised pages to be inserted in *Your Credit Rights* instructional unit.

Section 5, "The Truth in Lending Act," and Section 6, "The Fair Credit Billing Act," contain totally new material and complete the basic unit. We hope you find these a useful addition to your educational program.

The cover and Roman numeral pages iii and v have been revised to reflect addition of the new sections. Pages ix and x, which list consumer credit materials from throughout the Federal Reserve System, have been updated. Please replace the original pages in your unit with these revisions. Also enclosed is an updated chart to be inserted on page 3 of the Instructor's Guide and corrected pages 29 and 94 to be inserted in your unit as well.

Although *Your Credit Rights* is now essentially complete, we will continue to provide you with information regarding any substantial changes in, or amendments to, consumer credit protection laws, as well as any new material that will enhance the teaching of the subject.

We appreciate your interest in Federal Reserve educational materials, and we welcome your comments.

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Forward

The Consumer Credit Protection Act of 1968—which launched Truth in Lending—was a landmark piece of legislation. It opened the doors of information for consumers and shed light on the actual terms and costs of credit.

Subsequent legislation addressed such issues as: outlawing discrimination in credit transactions, preventing unfair practices by debt collectors, and settling billing disputes without damage to one's credit rating.

We at the Federal Reserve Bank of Minneapolis believe it is important to understand the benefits—and the responsibilities—of using credit wisely. Equally important is the need to be aware of the protection afforded by the various consumer credit laws. We are pleased to present *Your Credit Rights.*

This publication is designed to provide a structure for teaching the topics of consumer credit and consumer protection. We hope that all those who use credit, now and in the future, will find *Your Credit Rights* to be helpful and informative.

Gary H. Stern, President
Federal Reserve Bank
of Minneapolis

Acknowledgments

Your Credit Rights was developed by the Federal Reserve Bank of Minneapolis. Coauthors are Barbara Jensen of the Bank's Public Information Department and consultants Judith Remington, Attorney at Law, and Jean Kinsey, Associate Professor, Agricultural and Applied Economics Department, University of Minnesota. Assistance on Sections 5 and 6 was provided by Eileen McGuire, editor, and Kathleen Cobb, production editor, Public Information staff.

We especially wish to thank the Ninth Federal Reserve District educators who encouraged us to undertake this project and assisted us during the development and classroom testing of *Your Credit Rights.* It is our hope that this unit will serve as a valuable resource in the teaching of consumer credit concepts and skills.

We also thank the individuals and organizations representing the credit industry whose assistance proved invaluable in the development of these materials.

This publication is not intended to be a complete or official summary of the laws relating to consumer credit protection.

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YOUR CREDIT RIGHTS

Contents

Preface v-vi

Introduction to *Your Credit Rights* vii-viii

Consumer Credit Information from the Federal Reserve System ix-x

Section 1 - An Overview of Consumer Credit
- Instructor's Guide to Topics 1-5 1-4
- Pretest 5
- Transparency and Activity Masters 6-19

Section 2 - The Equal Credit Opportunity Act
- Instructor's Guide to Topics 1-6 20-25
- Pretest 26
- Transparency and Activity Masters 27-44

Section 3 - The Fair Credit Reporting Act
- Instructor's Guide to Topics 1-5 45-49
- Pretest 51
- Transparency and Activity Masters 52-71

Section 4 - The Fair Debt Collection Practices Act
- Instructor's Guide to Topics 1-5 72-76
- Pretest 78
- Transparency and Activity Masters 79-96

Section 5 - The Truth in Lending Act
- Instructor's Guide to Topics 1-6 97-101
- Pretest 103
- Transparency and Activity Masters 104-126

Section 6 - The Fair Credit Billing Act
- Instructor's Guide to Topics 1-5 127-132
- Pretest 133
- Transparency and Activity Masters 134-156

Preface

Unit's Purpose

Your Credit Rights was developed by the Federal Reserve Bank of Minneapolis to assist educators in teaching the topics of consumer credit and consumer credit protection. It is designed for use with secondary and post-secondary students in economics, consumer economics, business education, home economics, or law-related courses, as well as in adult and community education programs on consumer credit.

The purpose of the unit is threefold:

1. To increase student awareness of the role played by individuals, creditors, credit bureaus, and debt collectors in the credit process.
2. To increase student understanding of the legal rights and responsibilities of consumers, creditors, and other representatives of the credit industry.
3. To help consumers develop skills in establishing and using consumer credit and solving credit-related problems.

Content and Organization

Your Credit Rights contains six separate sections which can be used singly or in conjunction with the other sections in the unit. Sections included are:

Section 1—An Overview of Consumer Credit
Section 2—The Equal Credit Opportunity Act
Section 3—The Fair Credit Reporting Act
Section 4—The Fair Debt Collection Practices Act
Section 5—Truth in Lending
Section 6—The Fair Credit Billing Act

The unit is designed so instructors can teach one or more sections, depending on the time available and the needs of their students. Section 1 provides an overview of consumer credit and explores the individual's use of credit. Although it provides a good foundation for studying the individual credit protection laws, all sections are self-contained and do not depend on the use of specific activities from a previous section to meet their instructional objectives. A pretest provided for each section of *Your Credit Rights* may be used to assess student knowledge and help an instructor select appropriate sections and topics to teach.

Each section of *Your Credit Rights* contains individual topics focusing on specific concepts or skills. Several learning activities

and a variety of teaching strategies are used to meet the topic's instructional objective. Instructors may select topics and activities within a section that are most appropriate for use with their students and their individual teaching styles.

Sections are developed sequentially. Earlier topics present basic information, concepts, and skills that provide students with the necessary background to study the topics and concepts that follow. For example, in Section 1, students first learn about the types of consumer credit and reasons why people use credit. Later they study the pros and cons of credit use and the factors to consider when deciding how to make a purchase. Similarly, in Sections 2-6, students learn about creditworthiness, credit reporting, consumer delinquency, credit shopping, and billing errors as a basis for studying the specific consumer credit protection laws.

Using *Your Credit Rights*

Each topic is designed to be taught during a class period of 40-55 minutes. If individual class periods are shorter, an instructor may wish to limit the number of activities used to teach a topic or use more than one class period. Additional class time also may be needed to develop, conduct, or follow up on role play and simulation activities. Five or six topics are covered in each section. Therefore, a section may be taught during a one- or two-week period, depending on the use of role play and simulation activities, the amount of class time available, the level and background of students, the number of topics and activities used, and the use of additional materials.

Prior to teaching a topic, an instructor should carefully review the learning objective for the topic, the list of materials needed, and topic directions printed on the instructional folder for each section. In addition, transparencies, readings, student exercises, case studies, flow charts, etc., contain information that an instructor may wish to review before using these materials in class. Although topic directions and student materials are designed to provide the instructor with all the information needed to teach a topic, role play and simulation activities may require some additional preparation such as a test run.

All materials needed to teach *Your Credit Rights* are included in the instructional package. Instructors may find the *Introduction to Your Credit Rights* helpful in explaining to students the legislative and enforcement aspects of consumer credit protection. Besides topic directions, each instructional folder contains an introduction to the section, key concepts and definitions of key terms used in the section, and an answer key. The individual sheets following each section folder are "masters" which an instructor may use to make overhead transparencies and classroom sets of student materials needed to teach each topic.

All materials are three-hole punched so that an instructor may place *Your Credit Rights* in a three-ring binder and remove individual folders or sheets for lesson preparation and classroom use. This will also facilitate the adding of future sections and the updating of materials by the Federal Reserve Bank of Minneapolis when consumer credit laws and regulations change. If you wish to have your name placed on a mailing list to receive updates to *Your Credit Rights*, as well as additional sections when they are available, please return the enclosed post card. If your mailing address changes, please notify us by writing the Federal Reserve Bank of Minneapolis, Office of Public Information, 250 Marquette Avenue, Minneapolis, MN 55480, or call us at (612) 340-2443.

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Consumer Credit Information from the Federal Reserve System

The following materials are designed for use with secondary and post-secondary students as well as adults and community groups. Except where noted, materials are available free of charge from the publishing Federal Reserve Bank or the Board of Governors of the Federal Reserve System. Addresses and telephone numbers are provided at the end of the listing.

Publications

The ABC's of Figuring Interest
Discusses how the various ways of calculating interest affect the dollar amount paid. Federal Reserve Bank of Chicago, 1984, 10 pp.

Alice in Debitland
Explains consumer protection under the Electronic Fund Transfer Act, including the use of debit cards. Board of Governors of the Federal Reserve System, 1980, 16 pp.

The Arithmetic of Interest Rates
Applies the concepts of simple and compound interest to practical problems of determining the yield on government securities and the cost of consumer credit. Federal Reserve Bank of New York, 1984, 34 pp.

Fedpoints 17—Consumer Credit Regulators
Reviews the responsibilities of the 12 federal organizations charged with administering consumer regulations. Federal Reserve Bank of New York, 1985, 4 pp.

Consumer Credit Terminology Handbook
Defines consumer credit terms to assist consumers in everyday credit transactions. Also available in Spanish. Federal Reserve Bank of New York, 1979, 20 pp.

Consumer Education Catalog
Lists consumer education materials published by the System. Federal Reserve Bank of Boston, 1983, 24 pp.

Consumer Handbook on Adjustable Rate Mortgages
Explains how adjustable rate mortgages work and some of the risks and advantages they introduce. Board of Governors of the Federal Reserve System, 1984, 24 pp.

Consumer Handbook to Credit Protection Laws
Explains how consumer credit laws can help in shopping for credit, applying for credit, and establishing a good credit record. Board of Governors of the Federal Reserve System, 1983, 56 pp.

Give Yourself Credit
Guides the consumer through various credit protection laws. Federal Reserve Bank of San Francisco, 1981, 40 pp.

Plastic Money
Discusses consumer awareness concerning credit and debit card fraud and the regulations that protect the consumer. Federal Reserve Bank of Philadelphia, 1986.

The Story of Consumer Credit
Explains credit rights and responsibilities and introduces consumer credit regulations in a cartoon format. Also available in Spanish. Federal Reserve Bank of New York, 1980, 24 pp. (Charges for some bulk orders)

Pamphlets

Board of Governors of the Federal Reserve System:

The Equal Credit Opportunity Act and Age, 1982
The Equal Credit Opportunity Act and Credit Rights in Housing, 1980
The Equal Credit Opportunity Act and Incidental Creditors, 1983
The Equal Credit Opportunity Act and Women, 1977
Fair Credit Billing, 1983
How to File a Consumer Credit Complaint, 1984
If You Borrow to Buy Stocks, 1984
If You Use a Credit Card, 1984
Truth in Leasing, 1983
What Truth in Lending Means to You, 1981

Federal Reserve Bank of Chicago:

Credit Guide, 1984

Federal Reserve Bank of New York:

Your Credit Rating, 1984

Federal Reserve Bank of Philadelphia:

Charting Mortgages, 1985
Electronic Fund Transfer (Regulation E), 1980
The Fair Debt Collection Practices Act, 1978
How the New Equal Credit Opportunity Act Affects You, 1978
How to Establish and Use Credit, 1984
Options for Savers, 1984
The Rule of 78's, 1984
Your Credit Rating, 1984

Federal Reserve Bank of Richmond:

Borrowers, Lenders, and Interest Rates, 1984

Instructional Materials

Getting Credit
Reviews the procedures for establishing credit. Contains filmstrip, 35 copies of "The Story of Consumer Credit," narrative, learning assignments, class discussion, and vocabulary. Federal Reserve Bank of New York, 1981. ($4.00 per set)

Teaching About Credit
Teaches credit use, credit protection legislation, and consumer rights and responsibilities in eight lessons. Includes student activity page. Federal Reserve Bank of St. Louis. ($3.00 per set)

Films/Video Cassettes

The audiovisual materials listed are available in a variety of formats through District Federal Reserve Banks as indicated below. Video cassette users are encouraged to copy materials for their audiovisual libraries.

Both Borrower and Lender
Discusses the wide range of choices available to today's consumer of financial services and explains some of the important factors to consider when selecting these services. Federal Reserve Bank of Philadelphia, 1985, 15 minutes.

- 16 mm film: Chicago, Cleveland, St. Louis
- 3/4" tape: Philadelphia, St. Louis
- 1/2" tape: Chicago, Cleveland, Philadelphia

EFT: At Your Service
Introduces the concept of electronic fund transfer and explains the various EFT options available to consumers. Identifies consumer protection and responsibilities under the Electronic Fund Transfer Act. Includes a teacher's guide and activity masters. Federal Reserve Bank of Philadelphia, 1980, 14 minutes.

- 16 mm film: Any Bank except Atlanta
- 3/4" tape: Kansas City, Richmond, St. Louis
- 1/2" tape: Cleveland, Richmond

To Your Credit
Describes consumer credit regulations including the Equal Credit Opportunity Act, the Fair Credit Reporting Act, Truth in Lending, and the Fair Credit Billing Act. Explains the importance of creating a good credit record. Federal Reserve Bank of Philadelphia, 1978, 15 minutes.

- 16 mm film: Any Bank except Atlanta
- 3/4" tape: Dallas, Kansas City, Richmond, St. Louis
- 1/2" tape: Cleveland, Dallas, Richmond

"To Your Credit" and "EFT: At Your Service" are available in combination with "The Fed . . . Our Central Bank."

- 3/4" tape: Minneapolis, Philadelphia, Richmond
- 1/2" tape: Chicago, Minneapolis, Philadelphia, Richmond

Addresses of the Board and Federal Reserve Banks

Publications Services
Division of Administrative Services
Board of Governors of the Federal Reserve System
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Research Department, Publications Unit
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Chicago, IL 60690
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Cleveland, OH 44101
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Public Services Department
Federal Reserve Bank of Richmond
P.O. Box 27622
Richmond, VA 23261
804-643-1250

Bank Relations and Public Information Department
Federal Reserve Bank of St. Louis
P.O. Box 442
St. Louis, MO 63166
314-444-8421

Public Information Department
Federal Reserve Bank of San Francisco
P.O. Box 7702
San Francisco, CA 94120
415-974-3234

The chart below is an update of that which appears on page 3, Section 1, of the Instructor's Guide.

Please cut along dotted lines and insert boxed material in your unit.

2. Compare spending needs as a percentage of income for specific age groups using the "empirical evidence"* for the Life-Cycle Spending and Earnings Pattern graph:

	Age of Reference Person					
	Under 25	25-34	35-44	45-54	55-64	65 and Older
Average after-tax income	$10,282	$20,922	$26,455	$27,068	$21,865	$12,739
Spending needs	$11,617	$19,271	$24,296	$24,718	$19,497	$12,346
Spending needs as percent of income	113%	92%	92%	91%	89%	97%

(Note: These data represent the most recent aggregate spending information available. Although actual spending and income levels have risen over time, the general relationship between spending and earnings during the life cycle is still valid.)

3. Emphasize to students that consumers eventually must repay credit used for spending needs listed in question b above. In the long run, spending cannot exceed income—consumers ultimately must pay for all of their purchases.

*U.S. Department of Labor, *Bureau of Labor Statistics Report* 455-4, Consumer Expenditure Survey Series: Interview Survey, 1982-83, Table 3, pp. 19-20.

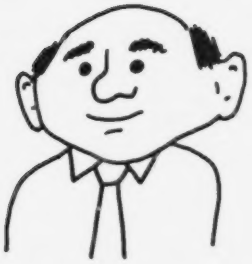
Your Equal Credit Opportunity Rights

A creditor is prohibited from discriminating against you on the basis of:

- age;
- sex or marital status;
- race, color, religion, or national origin;
- reliance on income from a public assistance program;
- a "good faith" exercise of your rights under the federal consumer credit protection laws.

A creditor cannot discourage you from applying for credit if you are a reasonable applicant.

Consumer Clout



I've always paid my bills on time . . .

He's a good customer and has paid on time before . . .

I'm sure I'll find another job . . .

We want to help . . . and minimize our losses.

If you don't help me, I'm going to warn all my friends about you . . .

He told us about the problem . . .he intends to repay.

I won't buy another thing from you . . .

We could always repossess the merchandise . . .

1. What do you think the creditor might do in this situation?

2. What might be the consequences to the creditor of not "negotiating" with the consumer?

3. If three months later the consumer still hasn't paid, what action(s) might the creditor take to obtain payment or reduce losses?

YOUR CREDIT RIGHTS

SECTION 5

The Truth in Lending Act

Introduction

The Truth in Lending Act, passed in 1968 and amended in 1980, was the earliest and perhaps most important of all consumer credit legislation. For the first time, creditors were required to give information to consumers on the costs of credit in ways which allowed consumers to shop for and use credit effectively. In this section, students will learn the differences between closed-end and open-end credit. They will also use information provided by creditors to learn the costs and terms of a particular credit plan, as well as to compare credit costs.

Key Concepts

1. Truth in Lending is a disclosure law. It does not set interest rates on credit but requires creditors to provide information on credit costs to consumers so they can make informed decisions and "shop for credit," if desired.
2. The Truth in Lending Act applies to credit used by consumers to purchase goods and services primarily for personal, family, and household use.
3. The finance charge and the annual percentage rate (APR) are the most important items of information for credit shopping and must be displayed more conspicuously than anything else on a credit contract.
4. The cost of open-end credit accounts will vary depending on the annual percentage rate, the date the finance charge begins, the outstanding balance, and how that balance is determined.
5. The right of rescission allows consumers who have placed their residence as security in a credit transaction, other than a loan to purchase the home, to cancel the transaction within three business days.

Topic 1—Credit—You Have a Choice

Objective: Student will learn that there are almost as many sources and terms of credit as there are reasons to use credit. Student will be able to identify examples of open-end and closed-end credit.

Materials Needed:
Transparency 1—"The Credit Menu"
Transparency 2—"Open-end or Closed-end Credit?"

Directions:

1. A consumer who needs or wishes to use credit has many financing options. There rarely is only one available source of credit or one suitable type of credit. Not all credit plans, however, offer the same features or the same cost. In addition, different creditors have different standards for judging an applicant's creditworthiness. Someone whose credit application is denied by one creditor may obtain credit from another creditor. Also, some credit plans are more appropriate for certain types of purchases. For example, a consumer would use a different type of credit to purchase an automobile than to make purchases from time to time at a department store.

   Use Transparency 1 to discuss the many sources of credit available to consumers. Have students list special characteristics of each credit source and compare the possible costs and ease of obtaining credit from each of the sources listed (e.g., only a member can obtain credit from a credit union; finance companies might grant credit to less creditworthy applicants but charge higher rates of interest).
2. Credit plans can be divided into two major categories: open-end and closed-end credit. Show students Transparency 2 which describes how these two types of credit differ with respect to use and cost. In general, open-end credit refers to an account which a consumer uses to make purchases from time to time. Ask students to list some examples of open-end credit. [Department store credit cards, bank cards such as VISA or MasterCard, overdraft protection.] Closed-end credit refers to a "loan" for a specific amount of money for a specific purchase. Ask students to list some examples of closed-end credit. [Home loan, auto loan, installment loan to purchase furniture or appliances, college loan.]

Topic 2—The Truth in Lending Act

Objective: Student will learn that Truth in Lending requires creditors to disclose credit costs. This information helps consumers to make better credit decisions.

Materials Needed:
Reading 1—"Truth in Lending Act—Disclosure Law"
Reading 2—"Your Truth in Lending Rights"

Directions:

1. Ask students if they know who sets maximum interest rates that creditors can charge on open- and closed-end credit. [Most states have laws, called *usury laws*, setting interest rate ceilings. The Truth in Lending Act does not determine interest rates.] Assign students Reading 1, which explains how Truth in Lending helps consumers by making available to them comparable credit cost information.
2. Distribute Reading 2, which summarizes the provisions of the Truth in Lending Act. As a class, read and discuss the list of rights and provide definitions and clarifications as needed. Point out to students that different information is given for a loan with a fixed term (closed-end credit) than for a charge account or credit card account (open-end credit). Also, closed-end credit requires more initial disclosures because those costs are fixed at the time the loan is granted. Open-end credit costs vary depending on how the consumer uses credit.

(Note: In the Fair Credit Billing section we will discuss periodic statements for open-end credit accounts and give detailed information on how to read those statements.)

Topic 3—Credit Advertising

Objective: Student will be able to distinguish between misleading credit advertisements and those which give sufficient information to the consumer. Student will know what information to look for in reviewing credit advertisements.

Materials Needed:
Student Exercise 1
Transparency 1—"Trigger Terms–Closed-end Credit"
Transparency 2—"Trigger Terms–Open-end Credit"
Student Exercise 2

Directions:

1. The Truth in Lending Act requires accurate advertising of credit terms. It ensures that a consumer will not have to make a credit decision based on incomplete or misleading information. Distribute Student Exercise 1 and read the directions to the class. When students have completed the assignment, discuss their responses. [See "Answer Key."] Explain that, for example, advertising "monthly payments under $59" does not provide sufficient information for a

Vocabulary

Amount Financed	The total amount of credit, often the purchase price minus the down payment.
Annual Percentage Rate (APR)	The actual cost of credit expressed as a yearly rate.
Closed-end Credit	One-time credit for a specific amount, usually for a large purchase and repaid in installments.
Finance Charge	The total cost of credit expressed as a dollar amount.
"Free Ride"	A period of time during which a consumer can pay his/her credit bill and not be charged any interest.
Initial Disclosure Statement	A written statement, given to consumers before they use an open-end credit plan, explaining costs and billing procedures.
Minimum Payment	The dollar amount of an open-end credit bill that a consumer must pay to keep his/her account current.
Open-end Credit	A line of credit that may be used repeatedly up to a certain dollar amount and on which a charge may be imposed.
Periodic Statement	A statement creditors provide consumers giving the current status of a credit account, usually made once a month.
Right of Rescission	The right to cancel a transaction involving a security interest in a consumer's home.
Security Agreement	An agreement granting a security interest in property, usually in connection with a credit transaction.
Security Interest	An interest which a creditor has in particular property of a borrower giving the creditor the right to take and sell the property to satisfy an unpaid debt.
Usury Laws	State laws which set the maximum interest rates which creditors are permitted to charge consumers on open- and closed-end credit.
Variable-rate Loan	A loan on which the annual percentage rate may be increased at certain times and/or under certain conditions (e.g., when there is a change in a specific economic indicator, such as the Consumer Price Index, or after periodic rate assessments).

consumer to decide if it is a good credit buy. While the monthly payments might be low, a high interest rate or a long repayment period may make the actual cost of credit expensive compared to other credit plans.

2. Whenever explicit credit terms are used in advertising, the law requires that further information be given to the consumer. These specific terms, misleading by themselves, are known as "trigger terms" since they trigger the need for additional disclosures. For example, if an advertisement mentions a specific term, such as "only $20 down," it must also state all other terms a consumer would need to know in order to make an informed credit decision: the number, amount, and period of payments that follow. Show students Transparency 1. Explain how the additional information provides a more complete indication of the total expense involved.

3. The annual percentage rate is a trigger term if used for open-end credit, but not for closed-end credit. With open-end credit, the APR does not reflect any additional charges that might be imposed, such as any minimum, fixed, transaction, activity, or membership charge. Those charges are disclosed separately, and the cost will usually vary, depending on the way the consumer uses the account. Show students Transparency 2. With closed-end credit, the total cost is determined at the beginning of the loan and generally does not change.

4. Distribute Student Exercise 2. Have students complete the exercise and, as a class, discuss their answers. [See "Answer Key."]

Topic 4—Credit Shopping

Objective: Student will "shop" for credit by comparing the costs of alternative credit plans. Using a disclosure form, student will be able to answer specific questions regarding the terms of a closed-end credit plan.

Materials Needed:

Case Study—"Credit Shopping"
Reading 1—"What Is a Security Interest?"
"Sample Disclosure Form"
Reading 2 (Optional)—"The Right of Cancellation"

Directions:

1. Two of the most important items of information consumers need when making credit decisions are the Annual Percentage Rate (APR) and the Finance Charge. In order to compare various credit plans, consumers need to consider additional terms of each contract. Ask students what other information might be useful when making a credit decision. [Amount of monthly payment, length of time to repay, whether a down payment is required.] Assign students the Case Study—"Credit Shopping." Go over their answers in class. [See "Answer Key."]

2. Some credit transactions involve the use of a "security interest" to ensure that the loan will be repaid as agreed. The security interest usually relates to goods being purchased by the consumer; it may, however, relate to goods already owned by the consumer. Assign students Reading 1—"What Is a Security Interest?"

3. Before a credit contract is signed, the creditor is required to disclose the terms of the contract. This information must be in writing and in a form that the consumer can keep. Distribute to each student a Sample Disclosure Form. Using the form, have students answer the following questions concerning the credit purchase:

   a. How much will the credit cost? [$1,496.80]
   b. What is the APR? [14.84%]
   c. What down payment is required? [$1,500]
   d. How long does Alice Green have to repay? [Three years]
   e. What is the monthly payment amount? [$211.23]
   f. Is credit life insurance available? [Yes] Desired? [Yes]
   g. Does Big Wheel Auto have a legal interest in the car being purchased by Alice Green? [Yes]
   h. Are there other charges? [$12.50 in filing fees]
   i. What is the charge for a late payment? [$10.00]
   j. What happens if the loan is paid off early? [She may receive a partial finance charge refund]

(Note: The disclosure statement is one of several documents a seller/creditor, such as Big Wheel Auto, provides the buyer. In addition, the buyer will receive and sign a Note representing a legal obligation to repay as agreed and a Security Agreement giving the creditor a legal interest in the item being purchased and financed—the automobile in this case. This Agreement gives the creditor the right to repossess the property if credit is not repaid as agreed. Sometimes these various forms are combined.)

4. (Optional) Reading 2 explains the right of cancellation or rescission. This right applies only to a homeowner and so may be of minimal interest to a student; however, all consumers should be aware of this important part of Truth in Lending.

Topic 5—Using Open-end Credit Accounts

Objective: Student will learn how to use an open-end credit account to minimize costs and how to understand the disclosures received when opening a credit account.

Materials Needed:

Transparency 1—"Initial Credit Disclosures"
Transparency 2—"Shopping for Credit Accounts"
Reading 1—"Road Map for Credit"
Reading 2—"Balance Computation Methods"

Directions:

1. Review with students the differences between open-end and closed-end credit. Explain that open-end credit is a credit plan offered by a department store, bank, or other creditor which allows a person to make charges from time to time up to a certain dollar limit. A department store charge account is likely to be one of the first types of credit which students will use. When you open such an account, the creditor is required by law to provide you with certain information, called disclosures, before you use the account. Usually you receive this information with an application for credit or with the issuance of a credit card. Show Transparency 1.

2. Some credit accounts include a "free-ride" provision, which means that no interest is charged if the balance is paid in full

within a certain number of days. Show Transparency 2. Explain that there is no one best credit plan for every consumer. Ask students why the Whopper Charge credit plan is better for Connie. [Since she pays within 30 days, the higher interest rate is not a factor. She will not be paying a finance charge.] Why is the Super Charge credit plan better for Frank? [Since he does not pay the full amount of the bill, he will pay a finance charge each month. The lower interest rate will keep his interest payments down. If the difference in interest paid is more than $20, this plan would be better for him.] Explain that for Connie, a 30-day free-ride provision may be the most important consideration in shopping for credit.

3. Assign Reading 1. Ask students whether you should make prompt payment on an average daily balance account. [Yes, since the balance is changed daily, you pay more interest for every day you delay payment.] Ask students if there is an advantage to paying an adjusted balance creditor early. [No, your interest charges will be the same whether you pay on day 2 or day 20.]
4. Assign Reading 2 and go over the calculations with the class.

Topic 6—Economics of the Truth in Lending Act

Objective: Student will identify reasons why creditors "charge" consumers for credit and why consumers are willing to pay for credit. Student will calculate real interest rates. Student will learn the benefits and costs of the Truth in Lending regulation.

Materials Needed:

Reading 1—"Why Does Credit Cost Money?"
Transparency 1—"Interest Rates—Real or Nominal?"
Worksheet 1—"Real Interest Rates"
Reading 2—"Costs and Benefits of Regulation"

Directions:

1. Assign Reading 1. As a class, list reasons why creditors lend money or extend credit [by charging interest they can earn a profit] and why consumers are willing to pay for credit [to buy now, to purchase expensive items, to take advantage of lower prices].
2. As a class, list the types of risks taken by creditors when they lend money to consumers [slow repayment, nonrepayment, inflation].
3. Use Transparency 1 to help explain the difference between nominal and real interest rates. [Nominal interest rates are those quoted as the APR. Real interest rates are changes in purchasing power of dollars paid for credit. (Real rates = nominal rates - inflation rate)]
4. Have students answer the questions on Worksheet 1. Review their answers in class. [See "Answer Key."]
5. Assign Reading 2. Discuss with the class why consistent, required information protects consumers and helps them make better credit decisions. Explain that those who do not read the information are still protected to the extent that mandatory information disciplines the credit industry and decreases the chances of deception and fraud.

Answer Key

Pretest

1. *False.* Truth in Lending is a disclosure law which requires creditors to provide information on credit terms and costs so that consumers can make informed decisions.
2. *False.* The credit plan for a home purchase is a "loan" for a specific purchase repaid in predetermined installments. Usually, clothes are purchased with a credit card which allows repeated purchases up to a certain amount and on which a finance charge may be imposed.
3. *True.* Because the finance charge and annual percentage rate are the key indicators of the cost of credit to consumers, Truth in Lending requires that they be the most conspicuous items on all credit documents.
4. *False.* The consumer must notify the creditor in writing within three business days of a decision to cancel a loan contract. In addition, a creditor must inform the consumer of a three-day waiting period before taking any action on a credit contract when the consumer's home is used as security.
5. *False.* Accurate advertising of credit terms is required. When specific terms of credit are advertised, the ad must include only those terms a consumer would actually receive and any other information to avoid misleading the consumer.
6. *False.* You are entitled to any money above the amount you owe the creditor at the time the car is resold. However, should the creditor resell the auto at a price lower than the amount you owe, the creditor may sue you for the remaining amount.
7. *True.* An open-end credit plan allows a person to make charges from time to time up to a certain dollar limit and may impose a finance charge on the unpaid balance. As credit is repaid, more credit becomes available. Most often these transactions are made with a credit card.
8. *False.* Credit plans vary widely. Truth in Lending requires creditors to give consumers all information necessary to make good credit decisions.
9. *True.* In closed-end credit, disclosures must be made before loan documents are signed by the consumer. In open-end credit, the information must be given before the consumer uses the credit. If the terms of an open-end credit account change, the creditor must notify the consumer at least 15 days before the effective date.
10. *False.* Such a statement can be misleading to the consumer. What the advertisement fails to state are terms such as the annual percentage rate, down payment amount, and repayment period.

Topic 3, Student Exercise 1

Misleading statements: Nos. 1, 2, 3, 4, 7, 8, and 10

The only terms which may be used alone are "no down payment," "easy monthly payments," and "financing available."

Topic 3, Student Exercise 2

Ads 3, 4, and 5 do not comply. Ad 1 contains trigger terms, but all the additional information needed to inform the customer is given: annual percentage rate, down payment, and terms of repayment. Ad 2 is closed-end; therefore, the APR does not trigger additional disclosures.

1. $1,800 down
   $180 per month
   36 months to repay
3. Only $100 down
   24 months to repay

4. Monthly payments only $11.94
   Finance charge only $4.53
5. $20 annual membership fee

Topic 4, Case Study

There is no "right" answer to this question. The choice of a creditor or credit plan depends upon several factors and the needs of the consumer making the purchase. If you want the lowest payment possible, you would choose National Bank. If you wish to minimize your total cost of credit, American Savings would be your best choice. If having a longer period of time to repay is most important to you, either National Bank or Car Finance would be possible choices.

Topic 6, Worksheet 1

1. 0, -6%
2. 4%
3. 10%
4. 8%
5. a. 12%, b. -2%, c. 0, d. 9%
6. Real rates indicate the percentage by which lenders and savers have increased or decreased their spending power.

Pretest

Directions: Circle "T" if the statement is true; circle "F" if the statement is false.

T F 1. The Truth in Lending Act sets interest rates for consumer credit.

T F 2. You would have the same type of credit plan when purchasing a house as you would when buying clothes.

T F 3. The finance charge and annual percentage rate are the most important pieces of information on a credit contract.

T F 4. If you place your home as security in a credit transaction, you can cancel the contract at any time.

T F 5. The Truth in Lending law does not apply to advertising methods.

T F 6. If you miss loan payments on your car and the creditor repossesses it, the creditor can resell the car and keep the profits.

T F 7. A department store credit card is an example of open-end credit.

T F 8. You don't need to compare credit plans because basically they are all alike.

T F 9. Creditors must tell consumers the cost and terms of credit before any transactions are made.

T F 10. "Monthly payments only $50" tells you all you need to know about an advertised credit plan.

The Credit Menu

- ☐ Credit union
- ☐ Bank credit card
- ☐ Bank
- ☐ Savings and loan association
- ☐ Department store charge account
- ☐ Cash value of life insurance policy
- ☐ Oil company credit card
- ☐ Small finance loan company
- ☐ Savings bank
- ☐ Travel and entertainment credit card
- ☐ Family and friends

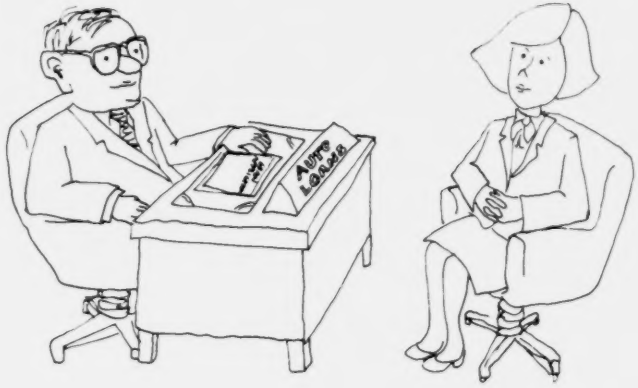
Open-end or Closed-end Credit?

Open-end

- Consumer uses credit from time to time
- The creditor charges interest on the amount owed in a particular month
- As credit is repaid, more credit is made available
- Transactions are often made with a credit card

Closed-end

- Consumer uses credit for a particular purpose
- The cost of credit and payment amount are fixed subject to certain changes*
- As credit is repaid, no additional credit is extended
- Each transaction requires a new contract



*Some creditors offer variable-rate loans in which the cost may increase or decrease under certain circumstances, but such loans are still considered closed-end.

Truth in Lending Act—Disclosure Law

Before the Truth in Lending Act and other credit laws of the 1970s, it was often difficult to find out the exact costs of credit. That information was sometimes buried in the small print, or simply not given at all. Moreover, there was no standard way of providing that information to the consumer—it varied from one creditor to the next—making it nearly impossible to compare credit costs.

What Did Truth in Lending Do?

The Truth in Lending Act changed all of this. It did so by requiring creditors to *tell* the consumer about the cost and terms of credit. It was not the intent of the law to set the terms of a credit contract. It is a *disclosure* law which gives the consumer the right to the information he/she needs to make good credit decisions.

What Information Is Given?

The two most critical pieces of information the consumer is given are:

- Annual percentage rate—the cost of credit as a yearly rate.
- Finance charge—the total cost of credit as a dollar amount.

The annual percentage rate is expressed the same way for all creditors and allows consumers to compare rates. Both the APR and the finance charge, when used with a number, must be more conspicuous than any other information on a page. The consumer should look at these items first. Other information will also be given depending on the nature of the transaction.

When Do Consumers Receive This Information?

Truth in Lending requires creditors to tell consumers what the cost and terms of credit are before transactions are final. In closed-end credit, disclosures must be made before the loan documents are signed by the consumer. In open-end credit, the information must be given before the consumer uses the credit. Usually, this means disclosures are sent with a credit card or given at the time credit is first used.

Who Is Protected?

Congress wanted Truth in Lending to protect consumers buying goods and services for their personal use. In general, the law applies to each individual or business that offers or extends credit when these conditions are met: (1) the credit is offered or extended to consumers; (2) the offering or extension of credit is done regularly (i.e., at least 25 times a year); (3) the credit is subject to a finance charge—or is payable by a written agreement in more than four installments; and (4) the credit is primarily for *personal, family,* or *household* purposes.

Your Truth in Lending Rights

The Truth in Lending Act requires creditors to provide you with accurate and complete credit costs and terms.

Creditors must disclose credit terms and information:

- in a clear and conspicuous manner.
- in a form you can keep.

For every credit transaction, the creditor must tell you:

- the FINANCE CHARGE—the cost of credit as a dollar amount.
- the ANNUAL PERCENTAGE RATE—the cost of credit as a yearly rate.

The annual percentage rate is considered accurate if it is no more than one-eighth of one percentage point above or below the actual rate.

For a loan with a fixed term, a creditor must tell you:

- amount financed.
- payment schedule.
- total dollar amount of payments.
- total sale price, including down payment.
- any property which the creditor can take if you do not pay on time.
- other terms and conditions of the loan.

Before you use a charge account or credit card, a creditor must tell you:

- the cost of credit as a monthly or daily rate.
- when and how interest will be charged to the account.
- service charge or annual fee, if any.
- any property which the creditor can take if you do not pay on time.
- statement of your billing rights.
- other terms and conditions of the credit.

The creditor must send statements on all credit accounts which have a debit or credit balance at the end of the billing cycle. These statements must include:

- previous balance.
- credits and debits in that month.
- periodic rate and corresponding annual percentage rate.
- finance charges imposed in that month.
- new balance.
- explanation of how new balance was determined.

If the annual percentage rate increases or other terms of a credit account change, the creditor must notify you at least 15 days before the effective date.

If an advertisement for credit contains specific terms (i.e., down payment, monthly payment), it must state:

- only those terms which a typical consumer could actually receive.
- other important information in order to avoid misleading you.

If you place your home as security in a credit transaction:

- the creditor must notify you in writing that you have a right to cancel.
- you have three business days to cancel the transaction if you wish.
- no money can be paid, no services performed, or materials delivered during those three business days.
- if you do cancel, the creditor must release the security interest and return all money or property received.

This right of cancellation does not apply to a first mortgage to finance the purchase of a home or if you voluntarily waive this right.

If you believe a creditor has not complied with the law, you may:

- notify the federal agency which supervises the creditor.
- sue to recover twice the amount of the cost of credit (not less than $100 or more than $1,000),* plus actual damages, attorneys' fees, and costs.

*In a class action, you may sue to recover $500,000 or 1% of the creditor's net worth, whichever is less.

Student Exercise 1

Directions: Circle the statements below which, if given alone, could mislead you about the actual costs or terms of credit.

1. Only 10% down
2. $2 monthly carrying charge
3. Take up to three years to pay
4. Pay only $20 down
5. No down payment
6. Easy monthly payments
7. Monthly payments under $59
8. Finance costs under $100
9. Financing available
10. Pay only $23 a month

Trigger Terms—Closed-end Credit

These terms trigger. . .	. . .additional information. (example)	These terms do not.
Only 10 percent down	And $20 a month for 12 months	No down payment
48 months to pay	Down payment of $500 and $35 per month	Take years to repay
Payments of only $105 a month	For 24 months after a down payment of $600	Monthly payments to suit your needs
Finance costs under $100	On payments of $20 a week for 26 weeks No down payment	Easy credit terms

Note: In each case, the additional information must also include the Annual Percentage Rate, using that term.

Trigger Terms—Open-end Credit

If an advertisement for open-end credit contains terms such as:	it must also disclose:
• 12% annual percentage rate	• any minimum, transaction, activity, or similar charge.
• small monthly service charge	• any membership or participation fee.
• $15 membership buys you $2,000 in credit	• annual percentage rate.
	• interest rate which may vary, if applicable.

Student Exercise 2

Directions: Which of the following advertisements violate Truth in Lending? Circle the "trigger" terms appearing in ads and decide if the ads comply with the law.

1. $1,800 down puts you behind the wheel of your own Gas Guzzler F Car. $180 per month, 36 months to repay. This Gas Guzzler F Car has all the luxury you've come to expect from supercars. Seeing is believing. Annual percentage rate of 18%.

2. Finance your dream home! 12% APR!!
   The home of your dreams can still be yours. Call Quality Construction to see if you qualify for this special rate.

3. Only $100 down and you can be the owner of a new Freezerforce Refrigerator. Take up to 24 months to repay. This one-time offer cannot be repeated. See your Freezerforce dealer today.

4. Genuine reconditioned Ming vase! We finance this fine art treasure for you at low, low rates. Monthly payments only $11.94—total finance charge only $4.53.

5. For a $20 annual membership fee the Clout Open-End Card can be yours! Charge now and have a free-ride period.

Credit Shopping

You have found a car at Bill's Used Car Lot that you would like to purchase. It costs $6,000, and you can make a down payment of $1,000. You need a loan of $5,000 to purchase the car and decide to call several creditors to see what they can offer you. You ask each of them the following questions:

How long can I take to repay?

What is the annual percentage rate?

What would the monthly payment be?

What would the total finance charge be?

Based on their answers you make the following chart:

Creditor	Number of months to repay	APR	Monthly payment	Finance charge
National Bank	48	12%	$131.66	$1,320
American Savings	36	14%	$170.84	$1,152
Car Finance	48	14%	$136.63	$1,558

On the basis of this information, where would you choose to obtain credit?

_____

Why? _____

_____

What Is a Security Interest?

When you purchase a car or other goods on credit, you will probably be required to sign a security agreement. This agreement gives the creditor legal rights to the goods named in the agreement if you fail to repay the loan. Sometimes a creditor may ask for security in situations where a loan is unrelated to the property. For example, if you apply for a vacation loan or a general loan, the creditor may require that you pledge your car or home as security for the loan.

When the loan is fully repaid, the security interest will be released. If you miss payments, however, the creditor can go to court to repossess the goods. If the creditor does repossess your goods and sell them, you are entitled to any money above the amount you owe the creditor at that time. If the goods bring less money at sale than the amount you owe, the creditor may still be able to sue you for the remaining amount.

Sample Disclosure Form

Big Wheel Auto Alice Green

ANNUAL PERCENTAGE RATE The cost of your credit as a yearly rate.	FINANCE CHARGE The dollar amount the credit will cost you.	Amount Financed The amount of credit provided to you or on your behalf.	Total of Payments The amount you will have paid after you have made all payments as scheduled.	Total Sale Price The total cost of your purchase on credit, including your downpayment of $ 1500 -
14.84 %	$1496.80	$6107.50	$7604.30	$ 9104.30

You have the right to receive at this time an itemization of the Amount Financed.
☐ I want an itemization ☒ I do not want an itemization.

Your payment schedule will be:

Number of Payments	Amount of Payments	When Payments Are Due
36	$211.23	Monthly beginning 6-1-85

Insurance
Credit life insurance and credit disability insurance are not required to obtain credit, and will not be provided unless you sign and agree to pay the additional cost.

Type	Premium	Signature
Credit Life	$120 -	I want credit life insurance. Alice Green Signature
Credit Disability		I want credit disability insurance. _____ Signature
Credit Life and Disability		I want credit life and disability insurance. _____ Signature

Security: You are giving a security interest in:
☒ the goods being purchased.
☐ _____.

Filing fees $ 12.50 **Non-filing insurance** $ _____

Late Charge: If a payment is late, you will be charged $10.

Prepayment: If you pay off early, you
☐ may ☐ will not have to pay a penalty.
☒ may ☐ will not be entitled to a refund of part of the finance charge.

See your contract documents for any additional information about nonpayment, default, any required repayment in full before the scheduled date, and prepayment refunds and penalties.

I have received a copy of this statement.

Alice Green 5-1-85
Signature Date

e means an estimate

The Right of Cancellation

While Truth in Lending is primarily a disclosure statute, the act does establish an important consumer right. Whenever you give someone an interest in your home as security for a loan (i.e., get a second mortgage), you have three business days to rethink the decision and cancel the transaction. This right applies both in open-end and closed-end credit; however, such arrangements are more common in closed-end transactions. This important right, known as the right of cancellation or rescission, allows you to reconsider whether you really want the loan enough to risk losing your home. (Note: The right of cancellation does not apply to a first mortgage to finance the purchase of your home.)

For example, suppose a roofing contractor contacts you and tells you that you need a new roof. You listen carefully, sign the documents, including a mortgage on your home, and make a down payment of $500. Later, you decide the roof can wait until you repay other loans. Truth in Lending gives you the right to cancel the transaction and get a refund of your money.

By law, the creditor must give you a "NOTICE OF RIGHT TO CANCEL" at the time you enter into the agreement. This document explains your right to cancel the transaction and recover any money you have paid. The creditor cannot disburse any money, perform any services, or take any other action until three business days have passed.* If you choose to cancel, you must do so in writing at any time within three business days. After receiving your cancellation, the creditor must release any security interest against your home and return within 20 days any money you have paid.

If a creditor takes a security interest in your home and fails to give you a notice of your right to cancel, then you may cancel any time within three years of the loan.

*You may waive the right to cancel in a "bona fide personal financial emergency."

Initial Credit Disclosures

The initial disclosure statement must include:

- a statement of when finance charges begin to accrue.
- the periodic rate used to compute the finance charge (and the corresponding annual percentage rate).
- which computation method the creditor uses to determine the balance and an explanation of how it works in simple terms.
- the amount of any annual or other special fee that might be imposed as part of the plan.
- whether the creditor is taking a security interest in the property purchased.
- a statement that outlines the consumer's rights and the creditor's responsibilities.

It is a good idea to keep a copy of a creditor's initial disclosure statement in your files for future reference.

Shopping for Credit Accounts

Whopper Charge

No monthly fee

22% APR

30-day free ride

Super Charge

$20 annual fee

18% APR

30-day free ride

Conscientious Connie
(who always pays in 30 days)

Free-spending Frank
(who always has a balance due and owing)

Road Map for Credit

In Topic 4 on closed-end credit, we used the example of trying to borrow money to purchase a car. You compared costs and monthly payments among various creditors. Open-end credit does not usually involve choosing among creditors. People typically open credit accounts at the department stores where they purchase many items or at the banks where they have a checking account or other banking relationship. However, in choosing a creditor, you should consider the amount charged, as well as the convenience. The annual percentage rate will often vary among creditors. Depending on balance computations and "free-ride" provisions, there could be even greater differences in the actual amount charged.

Example: You are interested in purchasing golf clubs for $200. You found identical clubs at two stores for the same price. One is Joe's Sporting Shop, a local independent merchant who has his own credit plan. The other is Anderson's, a local department store with its own credit plan. You will be paying on the clubs for several months, so you get a copy of the credit disclosures from both stores and compare them. You also have an overdraft checking credit plan with Friendly Fred's State Bank.

All credit plans indicate the interest rate is 18%. However, the actual cost to you will vary depending on which credit plan you choose. How much you pay will depend on when the finance charge begins and how the balance in computed.

When Do I Start Paying Interest?

All creditors may have the same annual percentage rate, but the amount of money you will spend for a particular purchase will vary depending on when the credit "accrues" or begins. For example, the store you choose may have a "free-ride" provision which allows you 30 days after you receive your bill to pay the amount without having any finance charge. If you purchase your clubs on May 5 (and receive the bill on June 1), no finance charge would be imposed until after the end of June. Your overdraft checking plan, however, may provide that interest runs from the time the check is posted to your account. Accordingly you would be charged interest from the day you activate the account (by writing a check in excess of the amount currently in your checking account). In such a case, you would be paying interest even before you receive a bill. Therefore, when interest accrues is an important factor in deciding which creditor to use.

On What Amount Do I Pay Interest?

Another important consideration is how the balance of your account is figured. There are three types of balance computation:

Adjusted Balance Method - you pay interest on the opening balance after subtracting payments or returns made during the month.

Average Daily Balance Method - you pay interest on the average balance owed during the month. The creditor figures the balance in your account on each day of the cycle, then adds together these amounts and divides by the number of days in the cycle.

Previous Balance Method - you pay interest on the opening balance on the bill regardless of payments you make during the month. (This is rarely used.)

The average daily balance method is the most exact method of balance computation. It encourages you to pay the bill promptly since finance charges go up daily. The other commonly used method, the adjusted balance method, does not encourage early payment. Whether your payment is made on day 5 or day 20, the finance charge would be the same.

In the example above, Joe's Sporting Shop uses the adjusted balance method and has a 30-day "free ride." Anderson's also has a 30-day "free ride" but uses the average daily balance method.

Under Joe's plan, if you pay $50 on June 28, the finance charge would be figured on $150, the amount remaining unpaid. Under Anderson's plan, you would be charged interest on the basis of $200 for 28 days and $150 for two days.

This means that Joe's interest charges for June would be $2.25 while Anderson's charges would be $2.95. Therefore, these two creditors, while having the same interest rate, have different interest charges because of the method of balance computation.

Balance Computation Methods

This example will demonstrate how credit costs will vary depending on the balance computation method used.

Assume you buy a $300 typewriter on May 5. The creditors each charge 18% APR,* have a 30-day free ride, and send out bills on the first of each month. On June 15 you make a payment of $100. Here is how your July bill would differ:

	Finance Charge
Creditor 1 (Average Daily Balance)	$3.75
Creditor 2 (Adjusted Balance)	$3.00
Creditor 3 (Previous Balance)	$4.50

How can these differ when the interest charged is the same? Let's look at the calculations:

Average Daily Balance - They figure interest on the average amount in your account during the month. You had 15 days of a $300 balance and 15 days of a $200 balance, so they multiplied $250 x .015 = $3.75.

Adjusted Balance - They figure interest on the balance of the account at the start of each month minus payments made. They subtract your $100 payment and multiply $200 x .015 = $3.00.

Previous Balance - They do not count the amount you paid during the month and charge interest for the entire month on the beginning balance. They multiply $300 x .015 = $4.50.

If you are an informed consumer, you can minimize credit costs by knowing how creditors calculate interest. If you have an average daily balance creditor, there is an incentive to pay your bills early in the month. You can delay until later in the month your payments to creditors with adjusted balance or previous balance methods and not incur additional costs.

*Monthly percentage rate = APR ÷ 12.
Daily percentage rate = APR ÷ 365.

Why Does Credit Cost Money?

Whenever you use credit or borrow money, you agree to pay a price or interest. Why? There are many reasons for using credit, but an important one is wanting to "buy now" rather than "later." For this privilege you are willing to pay a price for the use of borrowed funds or credit. The total price is called a finance charge. The finance charge is made up of the interest rate and other fees.

Consumers Want to Buy Now

Using credit to "buy now" sometimes saves you money. For example, let's say you decide to purchase an item now using credit. During the repayment period, its price increases more than what you had to pay in finance charges. Thus, you actually saved money by using credit and making the purchase early. Even if the price of an item does not change, it still may pay to use credit to buy now if postponing the purchase means you incur still other costs. An example might be postponing the purchase of a washer and dryer for six months while you save the money needed to pay cash. If the cost of having your laundry done is greater than what the finance charge would be to purchase the appliances on credit, you will not have saved any money.

Credit use can be justified for many reasons other than saving money. Sometimes credit is the only way to obtain more expensive items, such as an automobile, a college education, or a home. The total cost of the purchase is high, but for many individuals, the economic and psychological benefits of home ownership, having a car, or a college education are worth the price.

Creditors Take Risks

By providing you with funds or credit to make purchases "now," creditors take a risk. You may not repay. A creditor tries to minimize this risk by asking for and obtaining information on your ability and willingness to repay. However, even the most creditworthy and well-intentioned borrower may not repay as agreed. To provide some security against slow repayment or nonpayment, as well as to cover other costs of lending and to earn a fair profit, a creditor will charge interest on money loaned or credit extended to consumers.

Another risk a creditor considers when extending credit is an increase in the general level of prices, or inflation. If prices go up, the purchasing power of a dollar goes down. When creditors lend money, the interest rate reflects the price increases they expect over the term of the loan. Of course, consumers also may benefit by purchasing goods or services before prices increase. No one can predict exactly how much prices will change.

What Are Real Interest Rates?

The "real" cost of credit depends upon the rate of inflation. There are two ways to express interest rates. One is the *nominal interest rate*, such as the annual percentage rate. The other is the *real interest rate*. The *real interest rate* takes into account inflation, or a rise in prices. Consider the example below.

A creditor made a loan for $1,000 one year ago with an APR of 12%. It is repaid as agreed. However, the rate of inflation during the year was 4%. Because today $1,000 can buy only $960 worth of goods and services, the lender's earnings are reduced by $40 (4% of $1,000). Instead of earning $120, or 12%, the creditor really earns only $80, or 8%. Thus, repayment of the loan increased the creditor's purchasing power by 8%, not 12%.

When making decisions to extend or use credit, both the lender and the borrower should consider nominal and real interest rates. *Variable rate loans* are often used today. On these loans, interest rates charged vary, depending on the rate of inflation. This keeps nominal interest rates more in line with real rates of interest. If prices go up, nominal interest rates increase. If prices go down, the nominal interest rate may go down. Thus, the lender and the borrower share the risk of changes in the general price level.

Interest Rates—
Real or Nominal?

Nominal Interest Rate Is:

1. The APR charged for a loan

Real Interest Rate Is:

1. Nominal interest rate minus rate of inflation

2. The change in the purchasing power of dollars paid for a loan

Real Interest Rates

1. You borrow $100 from a friend and repay the $100 a year later in one lump sum. What is the nominal rate of interest on the loan?

   If prices increase 6% during that year, what would be the real rate of interest on the loan?

2. You deposit $1,000 in a bank for one year. At the end of the year, prices have gone up 4%. What APR must you earn on the deposit to "stay even" with inflation?

3. What would your friend in question 1 need to charge you in order to earn a real rate of interest (return) of 4%?

4. To earn a real rate of interest (return) of 4% on your $1,000 deposit, what APR would the bank have to pay on your money?

5. Calculate the *real interest rate:*

   a. APR = 18%
   inflation rate = 6%

   b. APR = 6%
   inflation rate = 8%

   c. APR = 10%
   inflation rate = 10%

   d. APR = 13%
   inflation rate = 4%

6. Why is the real rate of interest an important piece of information for lenders and savers to know?

Costs and Benefits of Regulation

Benefits From Accurate Information

1. Consumers know how much they will pay for credit. They can make an informed and rational decision to spend or not to spend their future income on known amounts of interest payments.

2. Government-mandated information about the true costs of credit helps ensure that all lenders identify credit costs in the same terms. This decreases confusion for consumers and minimizes their costs of shopping for credit.

3. Consumers can compare the price of credit from one lender to another.

4. Government-mandated information helps protect not only the consumers who carefully study and calculate credit costs but also those who do not or cannot.

5. Consumers are less likely to be victims of deceptive or fraudulent credit schemes.

6. Informed consumers are more likely to borrow no more than they can repay. They are lower risks to themselves and to their creditors.

Costs of Providing Accurate Information

1. All government regulations require public money to write, enforce, and evaluate. All taxpayers help pay the costs of regulations.

2. Changes in economic and social conditions require changes in regulations. Making the changes and educating both lenders and consumers about these changes cost money.

3. Lenders incur costs in printing and mailing to consumers information about credit costs, changes in credit terms, and consumers' rights. These costs are added to the cost of the products sold and/or to the finance charges for credit.

YOUR CREDIT RIGHTS

SECTION 6

The Fair Credit Billing Act

Introduction

Before 1975, disputing a credit bill could be frustrating and costly for a consumer. With the growing number of credit users and transactions and the advent of "computerized" billing, some errors were inevitable. It was difficult for consumers and creditors alike to resolve billing disputes. The Fair Credit Billing Act, passed in 1974, provided procedures for a consumer to dispute a bill containing an error and required creditors to respond promptly to any complaint. In this section, students learn what a billing error is and how to get it corrected using error resolution procedures. Students also learn what to do if a credit or debit card is lost or stolen or if defective goods are purchased using a credit card.

Key Concepts

1. Billing errors include an unauthorized purchase, an error in the description or amount of a purchase or credit, failure to show a payment or credit, a charge for goods or services not accepted or not delivered as agreed, and computational errors. A charge for goods or services that you believe are defective or inferior is not a billing error.
2. It is important for consumers to verify the accuracy of monthly credit bills, especially on revolving charge accounts. The dollar amount of an error can be compounded as finance charges are computed on the basis of the new, and incorrect, balance.
3. To protect one's credit rights, a consumer must follow billing error resolution procedures as established by the Fair Credit Billing Act. Notifying the creditor of an error by telephone may or may not resolve the problem.
4. During billing error resolution procedures, a consumer need not pay the amount in dispute, including related finance charges, and the creditor may not report the account as delinquent.
5. If a credit card is lost or stolen, a consumer is required to pay only the first $50 charged on the account and may avoid any liability if the creditor is notified before unauthorized charges are made.
6. Using a credit card can sometimes protect the consumer from paying for inferior or defective merchandise.
7. Electronic fund transfers have special, different rules regarding loss of a card and error resolution procedures.

Topic 1—Is This Bill Correct?

Objective: Student will be able to read a monthly credit statement and calculate the "new balance." In a simulation, student will find billing errors and determine the dollar amount of a credit bill error.

Materials Needed:

Sample Monthly Credit Statement
Transparency 1—"What Does a Monthly Statement Tell You?"
Simulation—"Is This Bill Correct?"
Credit Account Records

Directions:

1. Ask students if they have ever used credit to make a purchase. It is likely that some students will have used a department store credit card, bank credit card, or oil company credit card issued in a parent's name. For open-end credit accounts such as these, creditors usually send out periodic statements or "bills" each month. The bill shows purchases and credits made during the previous billing cycle, finance charges, and the current status of the account.
2. Give each student a Sample Monthly Credit Statement and discuss the key terms on the statement: "annual percentage rate," "finance charge," "periodic rate," "previous balance," "new balance." Point out to students that the words, "minimum payment due," are not required by law but usually appear on credit account statements. A consumer must pay the "minimum payment" or more to remain current. "Periodic rate" expresses the finance charge as a monthly or daily rate. If the APR is 18%, the monthly rate would be 1.5% (18% ÷ 12). Use Transparency 1 to discuss what informa-

tion a consumer can learn by reading his/her monthly statement and how the "new balance" is calculated.

3. Conduct a simulation activity where students use records of credit account activity to verify the accuracy of a monthly statement. Divide the class into groups of four to six students each. Give each group the simulation "Is This Bill Correct?" and have students read the directions. Pass out one set of credit account records to each group and have students begin the activity.

   (Note: Students do not yet know the legal definition of a "billing error." This activity is designed to provide an opportunity for students to compare credit account records with information appearing on a credit account statement and to note discrepancies. In Topic 2 students will learn what constitutes a billing error under the Fair Credit Billing Act.)

4. After approximately ten minutes, call on students from each group to tell the class what errors were found on Jim's bill and the dollar amount of each error. [See "Answer Key."] Next, as a class, "correct" Jim's bill using his account records.

5. Discuss the simulation using the following questions:

   a. According to Jim's records, what is the total dollar amount of the error on his bill? $25.32 ($62.88 - $37.56)]

   b. What portion of the error is due to a mistake in calculating the balance by adding "charges" and subtracting "payments" and "credits"? [$24.95 ($5.00 + $19.95)]

   c. What portion of the error is due to a mistake in the calculation of the finance charge? [$0.37 (.93 - .56 = .37)]

   d. If Jim's bill is wrong and is not corrected, will the amount of the error on next month's bill be the same? [No. The dollar amount of the error will increase even if there are no new errors. The "Previous Balance" will be $25.32 too high, and the "Finance Charge" will be calculated on the basis of the "Previous Balance" plus additional charges and minus any payments and credits. Thus, the error will be compounded as additional finance charges accrue.]

   e. Would you pay a credit bill if you believed it was incorrect? Why or why not? [As long as the bill is not corrected, the "error" will be greater each month until the account is paid in full.]

   f. What do you think would be some "costs" of not paying a credit bill? [Possible responses: "being delinquent," "be-

Vocabulary

Annual Percentage Rate (APR)	The cost of credit expressed as a yearly rate.
Average Daily Balance	The average credit balance during the previous billing cycle, used to compute the finance charge.
Billing Cycle	The interval between the dates of regular periodic statements, usually a month.
Billing Error	An error in a periodic statement such as a miscalculation, an item not properly identified, failure to show a payment or credit, or a charge improperly made on an account.
Billing Error Resolution Procedure	The procedure established by the Fair Credit Billing Act that allows consumers to request an investigation of suspected errors in credit bills.
Credit Card	A card, plate, coupon book, or other device that may be used from time to time to obtain credit.
Debit Card	A card which allows a consumer to purchase goods or services by having the amount subtracted from an account at the time of the transaction. It is also used to withdraw or deposit funds, pay bills, or transfer funds from one account to another electronically.
Finance Charge	The cost of credit expressed as a dollar amount.
Minimum Payment	The amount a consumer is required to pay on a revolving credit account by the next billing date.
New Balance	The total amount a consumer owes a creditor after any payments or credits are deducted and any new purchases or other charges are added.
Payments and Credits	Amounts subtracted from a credit account balance, reflecting amounts paid by the consumer and the return of goods purchased.
Periodic Rate	The annual percentage rate expressed as a monthly or daily rate depending on how the finance charge is computed.
Periodic Statement	A statement creditors provide consumers giving the current status of a credit account, usually made once a month.
Previous Balance	The total amount a consumer owed a creditor at the beginning of the billing cycle.
Third-Party Credit Card	A credit card issued by a bank, oil company, or other entity that can be used to obtain credit at retail stores, restaurants, or other places of business which have agreed in advance to honor the card.

ing reported to a credit bureau," "paying even more in finance charges," "having your credit line reduced" or "losing credit privileges," "time spent trying to get an error corrected," "bother and frustration if the dispute is not resolved or the error is not corrected."]

Topic 2—The Fair Credit Billing Act

Objective: Student will learn that a consumer has the right to challenge an error in a credit bill and receive a prompt response from the creditor. Student will also know the difference between a billing error and a quality dispute.

Materials Needed:
Reading 1—"Is Anybody Listening?"
Transparency 1—"Is It a Billing Error?"
Reading 2—"Your Fair Credit Billing Rights"

Directions:

1. Assign students Reading 1. Explain that before the passage of the Fair Credit Billing Act in 1974, consumers often had difficulty correcting mistakes on bills. The law now requires prompt correction of billing errors. It outlines procedures for disputing a bill in a way that protects a person's credit rating (the billing error resolution procedure).

2. Ask students to give some examples of billing errors. Use Transparency 1 to verify that their examples are billing errors and to learn what constitutes a billing dispute. Emphasize that a consumer does not have to be positive that a billing error has occurred in order to dispute a bill. A request for additional information or an explanation about a questionable item is also considered a billing error.

   (Note: Quality disputes are not covered by the billing error resolution procedure. See Topic 4, this section, for the special rights of consumers when defective goods are purchased using a credit card.)

3. Use the following questions to show the difference between a billing dispute and a quality dispute:

   a. A sofa is delivered to you, but you refuse it because it is defective. If you are billed for it later, is it a billing error? [Yes. A charge for merchandise you do not accept is a billing error.]

   b. A leg on the sofa broke five minutes after it was delivered to your home. A charge for the sofa appears on your next bill. Is it a billing error? [No. The billing is correct, but you have a quality dispute.]

4. Distribute Reading 2 and, as a class, read and discuss rights and responsibilities under the Fair Credit Billing Act. Ask students why a consumer is required to pay finance charges assessed during the investigation if a bill is found to be correct. [If this were not required, a consumer could avoid paying a valid bill for a few months by merely claiming that there was an error. There would be no "cost" associated with disputing an accurate bill.] Point out to students that a creditor is required to refund a credit balance if a consumer requests it. Also explain that if goods are returned to a merchant who is also the creditor, a refund must be given, if requested, rather than the right to exchange the goods for other merchandise.

Topic 3—Correcting Billing Errors

Objective: Student will know how to challenge an error in a bill and how a person's credit rating is protected during the error resolution process.

Materials Needed:
Reading 1—"Sample Billing Rights Notice"
Student Exercise 1
Reading 2—"Billing Error Resolution Procedure"

Directions:

1. Distribute the Sample Billing Rights Notice, and read the notice as a class. Whenever a consumer opens a credit account, these disclosures must be provided. A copy of this notice must be provided once a year thereafter, or the creditor may send a brief summary of billing rights with each statement. Emphasize to students that consumers may need to refer to billing rights notices later if errors should occur.

   Discuss the notice using the following questions:

   a. Does a telephone call trigger the error resolution process? [No. You must write the creditor a letter.]

   b. Do you have to be sure that an error has been made to have a billing dispute? [No. You may dispute a bill if you suspect an error or need additional information to determine whether an error has been made.]

   c. Do you have to pay the disputed amounts during the resolution process? [No.]

   d. Can a creditor report an unpaid amount to a credit bureau if you dispute a bill and refuse to pay even after a creditor's investigation? [Yes. However, the creditor must indicate that you dispute the amount.]

2. Assign Student Exercise 1. Have two or three students read their letters aloud, and ask the rest of the class to verify that the letters contain the following information:

   Name
   Account number
   Adequate description of item
   Reason the consumer believes there's an error
   The dollar amount of the error

   [See "Answer Key."] Emphasize that the letter must state a billing error is suspected. If a consumer simply asks for information for tax purposes, for example, it will not trigger the billing error resolution process.

3. Distribute Reading 2 and have students use it to answer the following questions concerning the "outcome" of the disputes in Student Exercise 1.

   a. In Case 1, Bankcard Forever investigated Mr. Wilson's complaint and found that the purchase was made by a different "George Wilson." What must Bankcard Forever do now? [Bankcard Forever must notify George of the error either separately or with his next statement. His next bill must be adjusted, crediting his account for the amount of the error and any finance charges.]

   b. In Case 2, Cromley's sent Sally a copy of a charge slip signed by one of her daughters for the purchase of an electronic game. When asked, the daughter remembered making the purchase. Is Sally responsible for paying finance charges? [Yes, she is responsible for the finance charges since the bill was correct.]

c. In Case 2, would Sally have had to pay finance charges if the $20.00 charge she disputed had been identified as "jewelry" instead of "toys and games"? [No finance charges would be owed on the disputed amount since the bill was in error.]

d. Why is it in your best interest to report a suspected error as soon as possible? [To avoid paying the finance charges on an incorrect bill and to avoid compounding the error.]

e. Why is it in the creditor's best interest to respond promptly to a complaint? [If a creditor fails to respond within the legal time limit, you may withhold up to $50 of the disputed amount even if the bill is correct.]

4. Discuss the economics of the Fair Credit Billing Act, specifically the Billing Error Resolution Procedure, using the following questions:

a. What possible costs to consumers (actual and indirect) of billing disputes are eliminated by the Fair Credit Billing Act? [Finance charges on the amount incorrectly billed, damage to credit record, time spent notifying a creditor more than once of a billing error, time wasted when a creditor fails to acknowledge or take action on a reported billing error.]

b. What possible costs are still incurred by consumers even with the Billing Error Resolution Procedure? [Time spent saving, organizing, and comparing sales receipts to billing statements, time spent notifying creditors of a billing error.]

c. What were the possible costs to creditors of a billing error before the Fair Credit Billing Act? [The creditor might not get paid if a consumer decided to withhold payment. However, the creditor could assess finance charges on the unpaid amount and report the consumer to a credit bureau as being "delinquent." The creditor could pay a collection agent to collect the debt. The creditor could ignore the consumer complaint and incur no additional costs.]

d. How does the "$50 penalty" encourage creditors to comply with the Fair Credit Billing Act and consumers to use the Billing Error Resolution Procedure even for small errors? [Creditors will lose up to $50 even if the bill is correct if they fail to acknowledge a consumer complaint, fail to resolve the dispute within a certain period of time, or if they report a consumer to a credit bureau during the resolution period. Consumers can be assured that either their complaint will be acknowledged and action taken, or they will be able to withhold up to $50 of the disputed bill including finance charges.]

Topic 4—Credit Card Transactions

Objective: Student will learn the difference between two-party and three-party credit transactions, what to do in situations involving defective merchandise, and who bears the risk in those situations.

Materials Needed:
Reading 1—"Two-Party Credit Transactions"
Reading 2—"Three-Party Credit Transactions"
Transparency 1—"Defective Goods or Services"
Role Play Cards
Role Play Follow-up Sheet
Student Worksheet

Directions:

1. Explain to students that credit cards were not always as commonplace as they are today. Up until 50 years ago, most business was handled on a cash basis.

   Assign Reading 1. Ask students for examples of two-party credit cards they may have seen or used [department store card or airline credit card].

2. Assign Reading 2 and discuss with students the various types of three-party credit transactions. [Travel and entertainment cards such as VISA or MasterCard, bank credit cards, and loans from a bank, credit union, or other institution to finance the purchase of goods and services from another party.]

3. Show Transparency 1—"Defective Goods or Services." Point out the mileage and dollar limitation in the case of three-party credit transactions. Why would Congress limit the consumer's right to purchases made close to home? [The merchant would have difficulty making adjustments for customers far away.] Why would Congress specify that the amount of the sale must have been more than $50? [A smaller amount is not considered significant enough to make the adjustment.] Explain to students that these limitations do *not* apply if the merchant is owned or controlled by the creditor or is a franchised dealer of the creditor.

4. Conduct two role plays which simulate situations involving defective merchandise.

   a. Select two students for Role Play 1, the two-party credit transaction: Larry, the customer, and Joe, owner of Joe's Music Store. Give each player the appropriate role play card and ask them to "enact" the situation outlined.

   b. Use the same two players, Larry and Joe, for Role Play 2, which involves a three-party credit transaction. A third player is thus added: the creditor, Ace Credit Card Co. Give each player the appropriate role play card and ask them to "enact" the situation outlined.

5. Distribute to students the Role Play Follow-up Sheet and review it as a class. Who bears the risk of defective merchandise: the customer, the merchant, or the creditor?

   a. In Role Play 1, before the Fair Credit Billing Act, Larry and Joe's Music Store shared the risk. After the law went into effect (1975), the customer had more protection. Larry can withhold the unpaid amount, provided he has made a good faith effort to settle the problem with Joe. (Note that it is only the *unpaid* amount that may be withheld. If Larry had made a down payment of $100, he could withhold $150, rather than $200.)

   b. In Role Play 2, involving a third-party creditor, the customer has far more protection since passage of the law. Before Fair Credit Billing, the customer was liable for the full amount of the purchase whether or not the goods were defective. After the law, the customer is entitled to withhold the unpaid amount after he has made a good faith effort to resolve the problem. The creditor can bring pressure to bear on the merchant for reimbursement in the case of defective goods. The customer has a powerful ally on his side.

c. How does the Fair Credit Billing Act help eliminate disreputable or financially unsound sellers from credit card networks? [It provides an economic incentive to third-party creditors to "screen out" such sellers in order to minimize their losses.]

d. How do customers benefit from the "screening out" of high-risk sellers? [They can be more confident that goods or services purchased using credit will be of satisfactory quality and that sellers (even ones with whom they've had no prior experience) are reputable and financially sound.]

6. Distribute copies of the Student Worksheet and ask students to answer the questions. As a class, discuss the reasoning behind each answer and compare with the "Answer Key."

Topic 5—Special Credit Card/ Debit Card Rules

Objective: Student will know what to do if a credit card is lost or stolen. Student will know the difference between a credit and debit card and be aware of the special rules which apply to these cards.

Materials Needed:
Reading 1—"Your Credit Card Rights"
Transparency 1—"Credit and Debit Cards"
Reading 2—"Consumer Protection in Electronic Fund Transfers"

Directions:

1. Assign Reading 1. Special problems exist when a transaction involves a credit card. If credit cards are lost or stolen, a wrongdoer may be able to use them to obtain goods and services. Before certain amendments to the Truth in Lending Act, a consumer had unlimited liability for unauthorized purchases made using his/her card. Now, however, the consumer's liability is limited to $50 in most cases. Ask students what a consumer should do if his/her credit card is stolen. [The first thing to do is to contact the creditor immediately. The most money a consumer can lose is $50 if it is a credit card only. The consumer would lose nothing if the creditor is notified before any unlawful credit transactions are made.] Why does the law limit the sending of unsolicited credit cards? [To avoid having a card fall into a wrongdoer's hands and the problem of safely disposing of an unwanted credit card.]

2. In the near future, many of our financial transactions will probably not be made by a check, but through a computer terminal, magnetic tape, or telephone. The "debit card" or electronic fund transfer (EFT) access device will become a common means of transferring money. Show Transparency 1. Explain that while a debit card looks and feels like a credit card, it in fact operates in a very different way. It usually has the name of a financial institution on it such as a savings and loan association, bank, or credit union. It can be used to make deposits or withdrawals from your accounts on a round-the-clock basis, seven days a week. It can also be used in point-of-sale machines in stores, shopping centers, or other public places. Using Transparency 1, indicate the differences between a debit and credit card. With a debit card, no credit is extended. Instead, the financial institution is simply paying out money that a consumer has in an account. In fact, the transaction is very similar to writing a check and requesting the bank to pay the merchant when the check is presented. The difference is that the transaction takes place in minutes rather than days.

3. The term "plastic money" applies to both credit and debit cards. While these cards resemble each other, they are very different payment mechanisms and carry different risks. Students should be aware that separate rules apply to debit cards. Such cards deserve special attention since the liability a consumer faces is far greater if a wrongdoer uses the card to gain access to a savings or checking account. Assign Reading 2 and as a class discuss the following questions:

   a. Which would be potentially more expensive to lose—an EFT debit card or a credit card? [The debit card carries substantially greater risks ($500 compared to $50) if the loss is not promptly reported.]

   b. The EFT Act allows a person to phone a financial institution to get resolution of an error. Would this protect a consumer under the Fair Credit Billing Act? [No. The law requires the consumer to write to the creditor.]

   c. With EFT, the financial institution must investigate and report back to the consumer within 10 days (or 45 days if they recredit the account). How long does a creditor have to investigate and notify a consumer under the Fair Credit Billing Act? [Ninety days or two billing cycles, whichever is less.]

Answer Key

Pretest

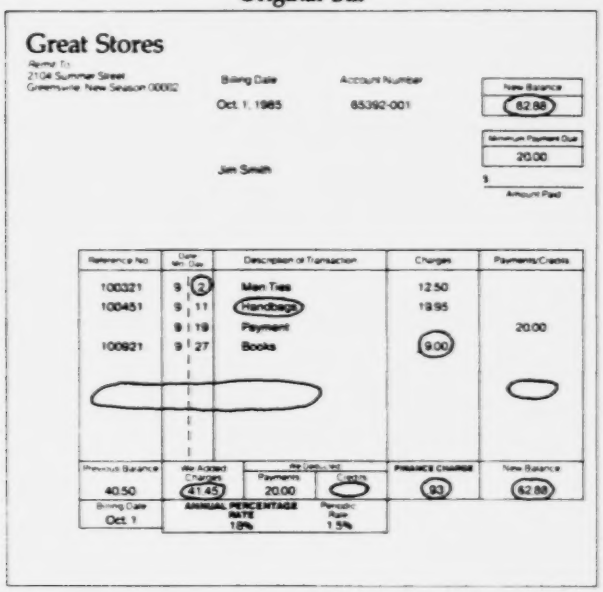
1. *False.* To protect your rights under the Fair Credit Billing Act, the creditor must be notified in writing of an error.
2. *False.* A monthly credit statement provides information on the current status of the account.
3. *False.* Under the Fair Credit Billing Act, you may withhold payment of any portion of the minimum payment related to the suspected error.
4. *False.* You are only required to pay finance charges on the undisputed portion of the bill.
5. *True.* A creditor must refund any remaining credit balance within seven days of a written request.
6. *True.* A creditor may, however, send out a replacement or renewal credit card.
7. *False.* The Fair Credit Billing Act provides protection against unauthorized purchases over $50.
8. *False.* A creditor must investigate all complaints made in accordance with the Fair Credit Billing Act.
9. *True.* However, you must first make a real effort to resolve the problem with the merchant. Certain restrictions apply if the credit card was *not* issued by the store where you made your purchase.
10. *False.* A debit card involves the immediate transfer of funds by electronic means, such as telephone, electronic terminal, or computer.

Topic 1, Simulation, Direction 4

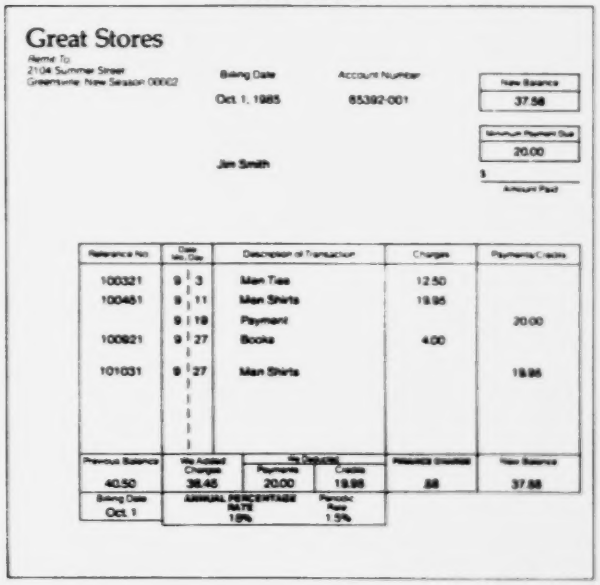
1. 100321	9/2	Men Ties	$12.50	
Should be 9/3				
100451	9/11	Handbags	$19.95	
Should be Men Shirts				
	9/19	Payment		$20.00
100921	9/27	Books	$ 9.00	
Should be $4.00				
101031	9/27	Men Shirts		$19.95
Credit not shown				

$40.50	Previous Balance
+36.45	Charges
−20.00	Payment
−19.95	Credit
$37.00 × .015 = .56	
+ .56	Finance Charge
$37.56	New Balance

Original Bill



Corrected Bill



Topic 3, Student Exercise 1

Case 1:

1. This is a billing dispute. You do not need proof that an error has been made to dispute a bill.
2. July 15, 1985*

   Bankcard Forever
   P.O. Box 8754
   All-American City, USA 00001

   Dear Sir/Madam:

   My name is *George Wilson*, and I have a Bankcard Forever card, *account number 753490*. I believe there is an error on the bill I received in June in the amount of *$800*. *Reference number 0548739 indicates that a purchase was made at Lucky Linda's Fur Salon in Anaheim, California. I did not make this purchase.*

   Sincerely,
   George Wilson

*You must notify a creditor of a billing error within 60 days of the date the bill was sent to you.

Case 2:

1. Yes. She isn't sure whether or not an error has been made on her bill. A request for additional information to help clarify a charge is considered a billing dispute.
2. January 15, 1985

   Cromley's
   523 Sussex Boulevard
   Suburbia, Greenstate 53333

   Dear Sir/Madam:

   My name is *Sally Smith* and my *account number is 028754. Reference number 0831100* lists a purchase of toys and games in the amount of *$20*. I believe there is an error in this bill. *I do not remember making such a purchase* and have questioned the other members of my family. *Please give me more information on this charge.*

   Sincerely,
   Sally Smith

Topic 4, Student Worksheet

1. *Yes.* The creditor and the merchant are the same.
2. *Yes.* She meets all the tests: over $50, within her home state, and a good faith effort to resolve the matter.
3. *No.* The purchase was not within 100 miles of her home or in the same state.
4. *No.* He has not made a good faith effort to resolve the matter. The problem may be unrelated to the earlier service call.
5. *No.* The purchase was not over $50.
6. *Yes.* The merchant was a franchised dealer of the card issuer, so dollar and mileage rules do not apply.

Pretest

Directions: Circle "T" if the statement is true; circle "F" if the statement is false.

T F 1. The best way to get an error corrected on a bill is to telephone the creditor.

T F 2. A monthly credit statement from a creditor will give you the complete account history.

T F 3. Even if you believe a bill is incorrect, you must pay the minimum amount due to protect your "credit record."

T F 4. If you dispute an incorrect bill, you will have to pay finance charges during the time the error is investigated and corrected.

T F 5. Whenever you have a credit balance on an account, a creditor must refund it if you so request in writing.

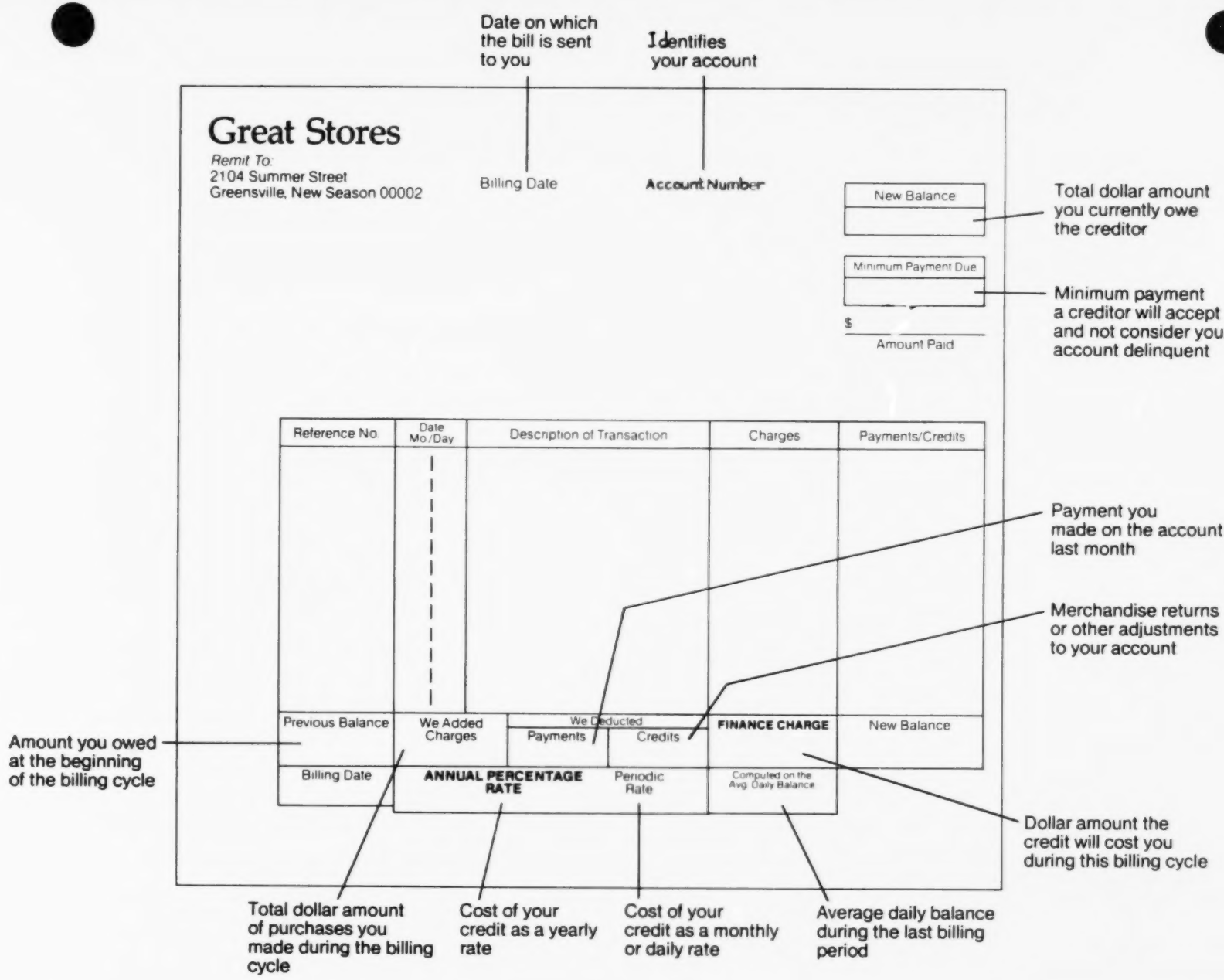
T F 6. Creditors may not send credit cards to people who have not requested or applied for them.

T F 7. If you fail to report a lost or stolen credit card, you may have to pay for an unlimited number of unauthorized purchases made with the card.

T F 8. You must have written proof (sales receipts, tags, etc.) that a credit bill is incorrect before a creditor has to investigate a suspected error.

T F 9. You may sometimes withhold payment for defective goods or unsatisfactory services if they were purchased using a credit card.

T F 10. A debit card is another name for a credit card.


Date on which the bill is sent to you
Identifies your account
Great Stores
Remit To:
2104 Summer Street
Greensville, New Season 00002
Billing Date
Account Number
New Balance
Total dollar amount you currently owe the creditor
Minimum Payment Due
Minimum payment a creditor will accept and not consider your account delinquent
$
Amount Paid
Reference No.
Date Mo./Day
Description of Transaction
Charges
Payments/Credits
Payment you made on the account last month
Merchandise returns or other adjustments to your account
Previous Balance
We Added Charges
We Deducted
Payments
Credits
FINANCE CHARGE
New Balance
Amount you owed at the beginning of the billing cycle
Billing Date
ANNUAL PERCENTAGE RATE
Periodic Rate
Computed on the Avg. Daily Balance
Dollar amount the credit will cost you during this billing cycle
Total dollar amount of purchases you made during the billing cycle
Cost of your credit as a yearly rate
Cost of your credit as a monthly or daily rate
Average daily balance during the last billing period

What Does a Monthly Statement Tell You?

- Current status of your account
- Purchases made during the billing period (identified by date, amount, and brief description)
- Payments and other credits received during the billing period
- Finance charges assessed during the billing period
- New balance

To determine how much you owe, the creditor uses the following calculations:

Previous balance
\+ New purchases
− Payments and other credits
\+ Finance charges
= New balance

To calculate the finance charges for that billing period, the creditor takes the balance of the billing period (either average daily balance or adjusted balance) times the periodic rate (either a monthly or a daily rate).

Is This Bill Correct?

Directions:

Below is Jim Smith's monthly credit statement from Great Stores. Jim didn't know he owed this much money so he decided to compare the bill with his own account records.

Using the items he finds filed behind "G" (for Great Stores), see if any error(s) were made on his account. Circle and correct errors appearing on the statement and write in anything that is omitted.

Great Stores

Remit To:
2104 Summer Street
Greensville, New Season 00002

Billing Date
Oct. 1, 1985

Account Number
65392-001

New Balance
62.88

Minimum Payment Due
20.00

Jim Smith

$ _____
Amount Paid

Reference No.	Date Mo./Day	Description of Transaction	Charges	Payments/Credits
100321	9 | 2	Men Ties	12.50	
100451	9 | 11	Handbags	19.95	
	9 | 19	Payment		20.00
100921	9 | 27	Books	9.00	

Previous Balance	We Added Charges	We Deducted: Payments	We Deducted: Credits	FINANCE CHARGE	New Balance
40.50	41.45	20.00		.93	62.88

Billing Date	ANNUAL PERCENTAGE RATE	Periodic Rate
Oct. 1	18%	1.5%

Credit Account Records

Great Stores

CHARGE RECEIPT

Acct. No. 65392-001 Date 9/3/85

Ref. No.	Dept.	Description	Qty.	Amount
100321	20	Men Ties	1	$ 6.50
		Men Ties	1	6.00
		TOTAL		$12.50

Great Stores

CHARGE RECEIPT

Acct. No. 65392-001 Date 9/11/85

Ref. No.	Dept.	Description	Qty.	Amount
100451	05	Men Shirts	1	$19.95
		TOTAL		$19.95

Great Stores

CHARGE RECEIPT

Account No. 65392-001 Date 9/27/85

Ref. No.	Dept.	Description	Qty.	Amount
100921	08	Books		$ 4.00
		TOTAL		$ 4.00

Great Stores

CREDIT RECEIPT

Acct. No. 65392-001 Date 9/27/85

Ref. No.	Dept.	Description	Qty.	Amount
101031	05	Men Shirts	1	$19.95
		TOTAL CREDIT		$19.95

JIM SMITH
4201 WINTER STREET
GREENSVILLE, NEW SEASON 00003

1145

September 19 19 85 75-798/919

PAY TO THE ORDER OF Great Store $ 20.00

Twenty and no/100 DOLLARS

1st Bank of Greensville

MEMO

Jim Smith

⑆123456789⑆ 11234567 8⑈

56

Is Anybody Listening?

Described below is a series of events that could have taken place before the Fair Credit Billing Act was passed:

> In April, Tom Green bought a lawn mower at Discount Store for $299.00. The charge appeared on his May bill, and he promptly paid it. His June bill showed his payment of $299.00, but it also listed a new charge for $299.00.
>
> Tom telephoned the store and was told to write a letter. Tom wrote a letter explaining the situation. The error also appeared on bills he received in July and August, even though by then he had written a second letter. Finance charges of $6.00 had also been assessed. Since Tom was not paying the "minimum payment amount," he was considered to be in default. In September, Tom received a threatening letter stating that legal action would be brought against him unless he paid promptly.
>
> In September, Tom was also in the process of buying a new car. When he checked with the credit union at his factory, he was surprised to find that they turned down his loan application. The loan officer told him he had a poor credit history and should "clean up" some bills he owed.

Tom Green is a fictitious character, but his problems are very similar to those expressed in consumer testimony in the Congressional hearings which led to the passage of the Fair Credit Billing Act. They are:

(1) failure of the creditor to respond to the consumer's complaint.

(2) continuous adding and compounding of interest on the amount of the error.

(3) continued demands for payment of the amount of the error.

(4) dunning letters or other actions designed to collect the amount of the error.

(5) harm to the consumer's credit history when disputed amounts are reported to credit bureaus as delinquent.

(6) denial of credit, job, or insurance because of a poor credit history.

In simpler times, billing errors were probably resolved by a consumer going directly to the local merchant and/or creditor. Today, the creditor may not be located close to the consumer or to the merchant from whom the goods were purchased. Also, a creditor may handle thousands or millions of credit transactions each month. Because of these factors and the severity of the problems that could result, the "billing error resolution process" was established to provide a prompt and effective way to resolve billing disputes.

If Tom Green had been protected by the Act, his first letter to Discount Store in June would have triggered the billing error resolution process. To comply with the law, the merchant would have acknowledged his complaint within 30 days and resolved the matter within two billing cycles or 90 days, whichever was less. Tom would not have received a threatening letter. He would not have had to pay any finance charges on the disputed amount during the investigation or after the billing error was discovered. The dispute would not have affected his credit record or his loan application.

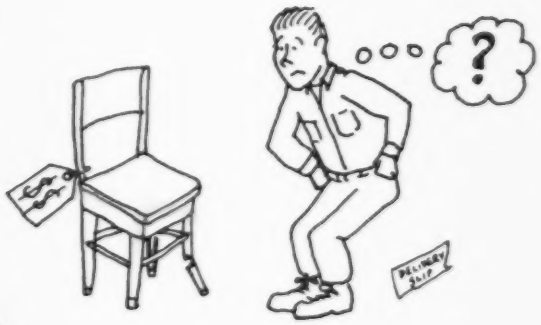
Fortunately, you are protected by the Fair Credit Billing Act. However, the law can protect you only if you know your rights and exercise them whenever you suspect an error has been made.

Is It a Billing Error?

Billing Disputes

- A purchase not made by you or anyone authorized to use your account.
- A purchase improperly identified, e.g., wrong amount, department, date, or description.
- A charge for goods or services you refused on delivery or which were not delivered as agreed.
- Failure to show a payment or other credit on the account.
- A mathematical or accounting error.
- The billing statement is not delivered to your current address if you notified the creditor of a change of address at least ten days before the billing period ended.
- A charge for which you desire additional information.

Quality Disputes



- Defective merchandise.
- Goods or services you purchased are not what you were told they would be.
- Goods or services you purchased are not suitable for their intended purpose.

Your Fair Credit Billing Rights*

The Fair Credit Billing Act allows consumers to correct errors in their credit card or charge accounts in a speedy and effective manner.

You have the right to dispute a bill, and the creditor must:

- acknowledge your written complaint within 30 days.
- investigate and notify you of the action taken within two billing cycles or 90 days, whichever is less.

You cannot be billed or forced to pay the disputed amount until the creditor has finished its investigation.

- Creditor must indicate on its statement that you need not pay any amount in dispute.
- If it is determined that you do owe the bill, you must be given the usual time to pay the bill.

If there was an error in your bill, you need not pay any finance charges on the disputed amount. If it is determined that there was no error, you must pay the finance charges.

*The law is found at 15 United States Code, Section 1666. Regulation Z is found at 12 Code of Federal Regulations, Section 226.1 et seq.

Your credit history is protected during the dispute process.

- Creditor may not report you as delinquent to a credit bureau while the error is being investigated.
- If it is determined that there was no error—and you disagree with the finding—the creditor can report you as delinquent, but must also report that the item is "in dispute."
- When the matter is settled, the creditor must report the outcome to the credit bureau and anyone else who received reports of the dispute.

A credit balance in your account must be refunded promptly.

- A creditor must refund a credit balance within seven business days if you request it in writing.
- A creditor must refund (by cash, check, or money order) any credit balance remaining in your account for more than six months.

Your Billing Rights: Keep This Notice for Future Use

This notice contains important information about your rights and our responsibilities under the Fair Credit Billing Act.

Notify Us In Case of Errors or Questions About Your Bill

If you think your bill is wrong, or if you need more information about a transaction on your bill, write us on a separate sheet at the address listed on your bill. Write to us as soon as possible. We must hear from you no later than 60 days after we send you the first bill on which the error or problem appeared. You can telephone us, but doing so will not preserve your rights.

In your letter, give us the following information:

- Your name and account number.
- The dollar amount of the suspected error.
- Describe the error and explain, if you can, why you believe there is an error. If you need more information, describe the item you are not sure about.

Your Rights and Our Responsibilities After We Receive Your Written Notice

We must acknowledge your letter within 30 days, unless we have corrected the error by then. Within 90 days, we must either correct the error or explain why we believe the bill was correct.

After we receive your letter, we cannot try to collect any amount you question or report you as delinquent. We can continue to bill you for the amount you question, including finance charges, and we can apply any unpaid amount against your credit limit. You do not have to pay any questioned amount while we are investigating, but you are still obligated to pay the parts of your bill that are not in question.

If we find that we made a mistake on your bill, you will not have to pay any finance charges related to any questioned amount. If we did not make a mistake, you may have to pay finance charges, and you will have to make up any missed payments on the questioned amount. In either case, we will send you a statement of the amount you owe and the date that it is due.

If you fail to pay the amount that we think you owe, we may report you as delinquent. However, if our explanation does not satisfy you and you write to us within ten days telling us that you still refuse to pay, we must tell anyone who receives our report that you have a question about your bill. And we must tell you the name of anyone who receives our report. When the matter has been settled between us, we must so advise anyone who has received our report.

If we do not follow these rules, we cannot collect the first $50 of the questioned amount, even if your bill was correct.

Case 1

George Wilson uses a "Bankcard Forever" credit card to make purchases at many different stores. On June 3, 1985, he receives his monthly bill.

Bankcard Forever
P.O. Box 8754
All-American City, USA 00001

June 1, 1985

George Wilson
Acct No. 753490

Ref. No.	Merchant	Description	Location	Charges
0548739	Lucky Linda's Fur Salon	Coats	Anaheim, CA	$800.00

George did not make this purchase. In fact, he's never been to Anaheim, California.

1. Does George have a billing dispute? _____

2. If you answered "yes" to the above question, write a letter from George to Bankcard Forever disputing the bill. Be sure your letter includes the date and complies with the requirements of the Fair Credit Billing Act.

Case 2

Sally Smith has a credit account with Cromley's, a local department store. Her husband and two daughters also use the account. On January 12, 1985, she receives the following credit statement:

Cromley's
523 Sussex Boulevard
Suburbia, Greenstate 53333

January 5, 1985

Sally Smith
Account No. 028754

Ref. No.	Date	Description	Charges
0831100	12/15	Toys and games	$20.00

Sally can't remember purchasing any toys in the past month, although she may have forgotten a holiday purchase. She asks her family, but none of them can recall making the purchase.

1. Can she dispute the bill? _____

2. If you answered "yes," write a letter from Sally to Cromley's disputing the bill. Be sure the letter is dated and contains the information necessary to protect her rights.

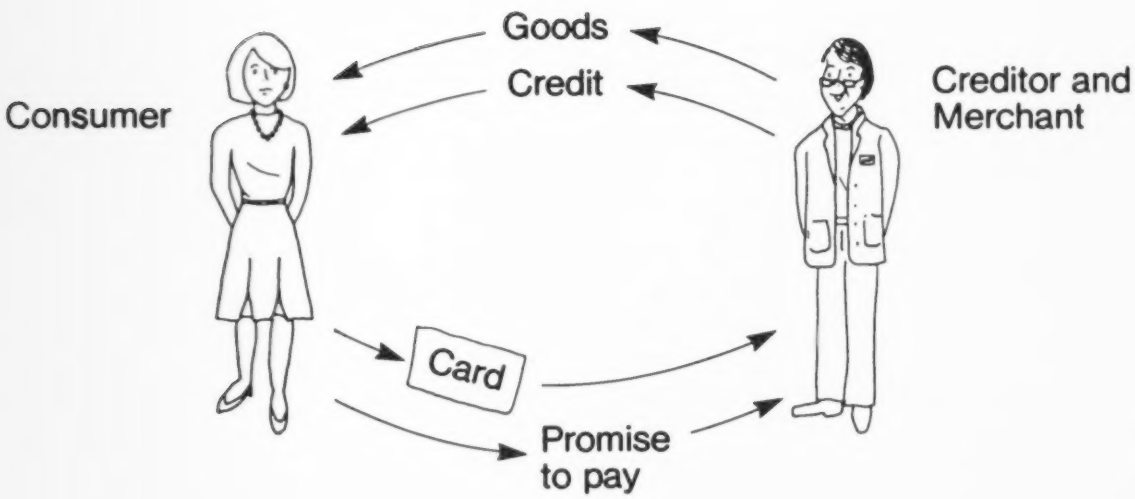
Billing Error Resolution Procedure

- If you believe there is an error, you must notify creditor within 60 days after the bill was mailed.
- Creditor must acknowledge your complaint within 30 days.
- Creditor must investigate the complaint, and during the investigation creditor may not report you as delinquent or take action to collect the disputed amount.
- Within two billing cycles or 90 days, whichever is less, creditor must either correct the error or explain why the bill is correct.
- If creditor determines there is no error, you must pay the amount due and any finance charges assessed (within ten days of receipt of creditor's notice).
- If there is an error but the amount owed is correct, you must pay the amount due but not the finance charges.
- If there is an error and you do not owe the amount, your bill must be adjusted, crediting your account for the amount of the error as well as any finance charges.
- If the creditor does not acknowledge your billing error notice or otherwise comply with the law in the appropriate time limits, you may keep payment of up to $50 of the amount in dispute, even if you actually owe the amount.

Two-Party Credit Transactions

Credit cards didn't make their appearance in this country until the early part of the twentieth century. At that time, a few hotels began issuing credit cards to their best customers—soon followed by oil companies and department stores. It was not until 1947 that airlines and railroads began to issue travel cards.

All of these cards had one thing in common: they represented a two-party credit transaction; that is, a merchant would issue a card to a customer. The customer would make purchases using credit and later pay the merchant directly under the terms of their agreement.

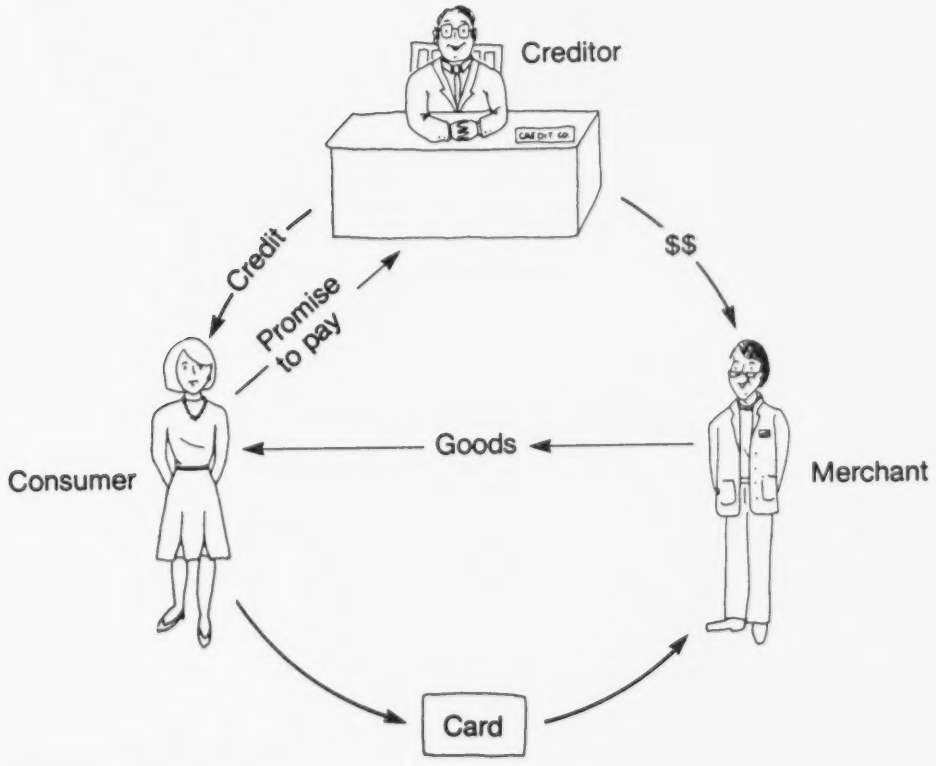


Three-Party Credit Transactions

In 1949, a significant change took place in the history of credit cards with the advent of the three-party credit transaction. Two of the parties were the same as before—the customer and the merchant. But now there was a third party—a creditor who was not the merchant.

Diners' Club was the first to use this concept. They issued cards to creditworthy customers, who then used those cards at participating restaurants. The restaurants (merchants) would send the bill to Diners' Club and receive payment, minus a small fee. The cardholders would receive a monthly statement from Diners' Club and send them a check. The cardholder also paid an annual fee for the privilege of having the card.

Bank credit cards soon followed, notably Bank of America and Chase Manhattan Bank. The next step involved other major credit card companies such as American Express, VISA, and MasterCard. These cards cover a broad spectrum of purchases—food, travel, entertainment—and are used on a worldwide basis. In general, they operate on the same principle as the Diners' Club that began in 1949.



Defective Goods or Services

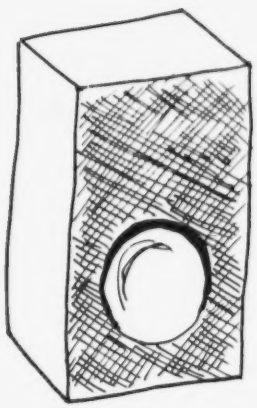
You purchase a stereo and find out that one of the speakers doesn't work. What can you do about it?

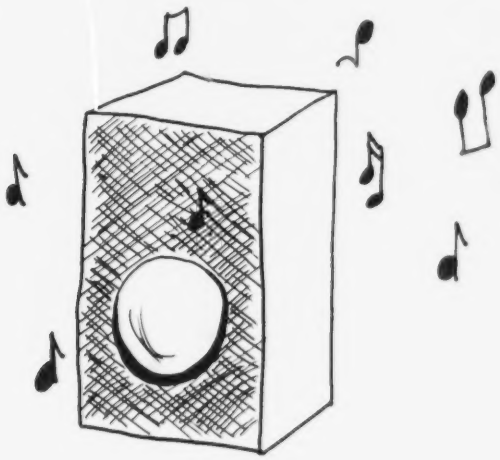
The Fair Credit Billing Act provides that you may withhold payment on any damaged goods or poor quality services purchased with a credit card as long as you have made a good faith effort to resolve the problem with the merchant.

This right may be limited in the case of three-party credit transactions (if the store that honored the card was *not* also the issuer of the card). In such cases, the sale:

—must have been for more than $50; and

—must have taken place in your home state or within 100 miles of your home address.





Role Play 1

Two-Party Transaction

Customer—Larry	Merchant—Joe
You purchased a guitar from Joe's Music Store on March 1. You paid $50 down and owe $200 more. Two days after the purchase, you notice the neck is cracked. You contact Joe and ask that the guitar be repaired or replaced. It's the first (and last) time you'll ever buy anything at Joe's!	You are the owner of Joe's Music Store. On March 1, you sold a guitar to Larry for $250. He paid $50 down and owes $200 more. Two days later he says that the neck is cracked and asks that the guitar be repaired or replaced. You have a repair shop on the premises.

Role Play 2

Three-Party Transaction

Customer—Larry

You purchased a guitar from Joe's Music Store on March 1. You paid for it by using your Ace Credit Card and charging the purchase price of $250. Two days later, you notice the neck is cracked. You contact Joe and ask that the guitar be repaired or replaced.

Merchant—Joe

You are the owner of Joe's Music Store and Repair Shoppe. On March 1, you sold a guitar to Larry for $250. He paid for it by charging it on his Ace Credit Card. Two days later you received payment in full from Ace—the same day that Larry told you the neck on the guitar was cracked. He asks you to repair or replace the guitar.

Creditor—
Ace Credit Card Co.

You paid $250 to Joe's Music Store on March 3. Larry, the purchaser, is a debtor of yours and owes a total of $500 on his Ace Credit Card.

Two-Party Transaction
Before Fair Credit Billing Act

Larry still owes $200 on the guitar. He can tell Joe that he won't pay unless the guitar is replaced or repaired.

Joe knows he might not get paid unless he agrees to repair or replace the guitar. If he has to sue Larry for the $200, it will cost him money and time. He may not be able to collect. He also does not want to lose Larry's business or that of his friends.

Three-Party Transaction
Before Fair Credit Billing Act

Larry is responsible for the $250 that he charged on his Ace Credit Card, whether or not the guitar is defective.

Joe has his $250 from Ace—so why should he bother to repair or replace the guitar? Of course, he still wants Larry's business and that of his friends, but he has very little financial incentive to repair the guitar.

Ace Credit Card didn't sell the defective guitar; Joe did. So it looks like the problem is between Joe and Larry. Ace wants payment in full regardless of the condition of the guitar.

Two-Party Transaction
After Fair Credit Billing Act

Larry has made a good faith effort to resolve the problem with Joe. If nothing is done, Larry can withhold the amount still owing ($200) until a satisfactory agreement is reached.

Joe knows that if he doesn't repair or replace the defective guitar, Larry has the right to withhold payment of the $200 still owing on the guitar.

Three-Party Transaction
After Fair Credit Billing Act

Larry has made a good faith effort to resolve the problem with Joe. If nothing is done, Larry can withhold payment of the amount still owing to Ace Credit Card for the guitar ($250) until a satisfactory agreement is reached.

Joe has his $250 from Ace—but he also has an agreement with Ace to reimburse the credit card company for any defective merchandise he sells. He knows that there will be pressure from Ace to satisfy the customer.

Ace Credit Card will enforce its agreement with Joe to reimburse Ace for faulty merchandise. Otherwise, it's up to Joe either to repair or replace the guitar, as requested by the customer. If this matter isn't resolved, Joe's Music Store will probably be dropped from the list of authorized merchants doing business with Ace Credit Card Co.

Student Worksheet

In the following situations, each consumer receives defective goods or poor quality services. Which transactions meet the requirements of Fair Credit Billing in order for the consumer to withhold payment from the creditor?

	Yes	No
1. George buys a hammock for $30 from the XYZ department store using his XYZ credit card. It breaks the first time he lies on it. He tries to exchange it at the store, but XYZ refuses. Can he withhold payment?	____	____
2. Amy purchases a dress from Tillie's Boutique, a store in her home town, for $80 with her Superbank Credit Card. Before she pays her bill, she notices a seam is ripped and tries unsuccessfully to return the dress. Can she withhold payment?	____	____
3. A consumer from California purchases jewelry for $500 on a visit to New York, using her VISA card. When she returns to California, she discovers the jewels are fake. Can she withhold payment?	____	____
4. Tom calls Ace TV Repair and has them fix his television set. He uses a bank credit card to pay the $120 fee. A week later the set breaks down again. He's "fed up" with Ace TV, and this time he calls a different repair shop. Can he withhold payment of the $120?	____	____
5. Janice purchases a $22 pair of shoes at Bill's Shoemart, about 30 miles from her home, using a bank card. The heel falls off the next week. Can she withhold payment?	____	____
6. Molly purchases a sewing machine for $250 from an E-Z Pay authorized catalog merchant using her E-Z Pay card. The store is located 200 miles from Molly's home. After discovering a faulty motor, she contacts the store and is unsuccessful in getting either repairs or a replacement. Can she withhold payment?	____	____

Your Credit Card Rights

There are special rules which protect you when receiving and using a credit card.*

A creditor cannot send you a card which you have not requested.

A creditor may send a replacement or renewal card.

If your credit card is lost or stolen:

- you pay nothing on unauthorized charges if you notify the creditor before any charges are made.
- you must pay the first $50 charged if you fail to notify the creditor before the charges are made.
- you have no liability if you haven't "accepted" the credit card.

You may withhold payment of any balance due on defective merchandise or services purchased with a credit card, provided you have made a good faith effort to return the goods or resolve the problem with the merchant from whom you made the purchase.

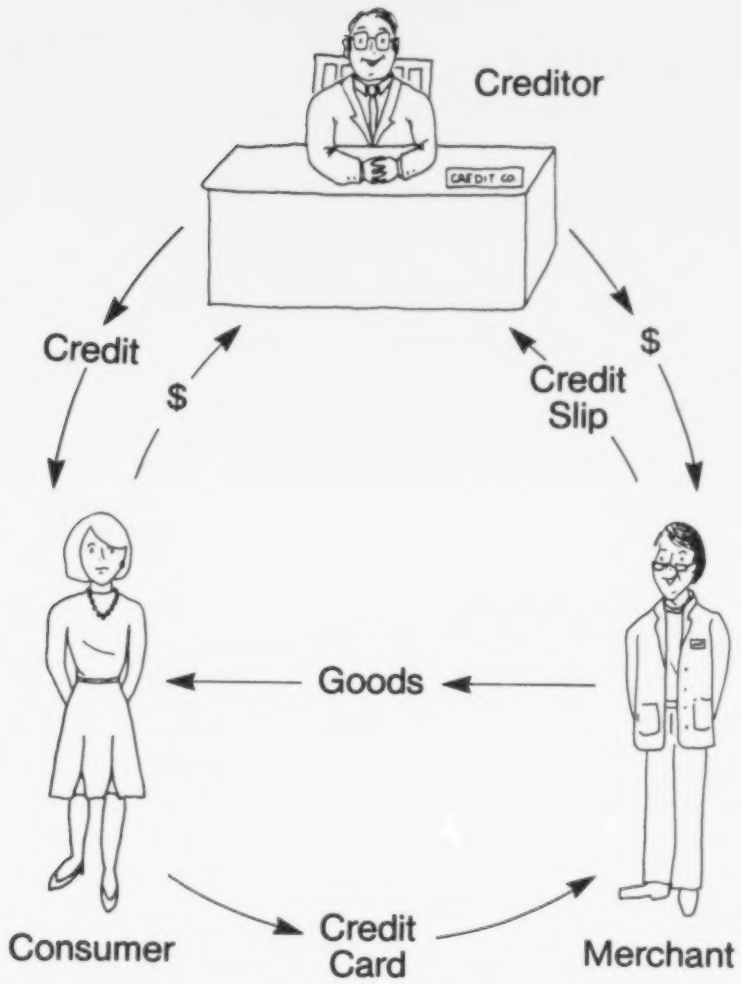
If you use a third-party credit card (such as VISA or MasterCard), the right to withhold payment applies only if:

- the original amount of the purchase exceeded $50; and
- the sale took place in your home state or within 100 miles of your current address.

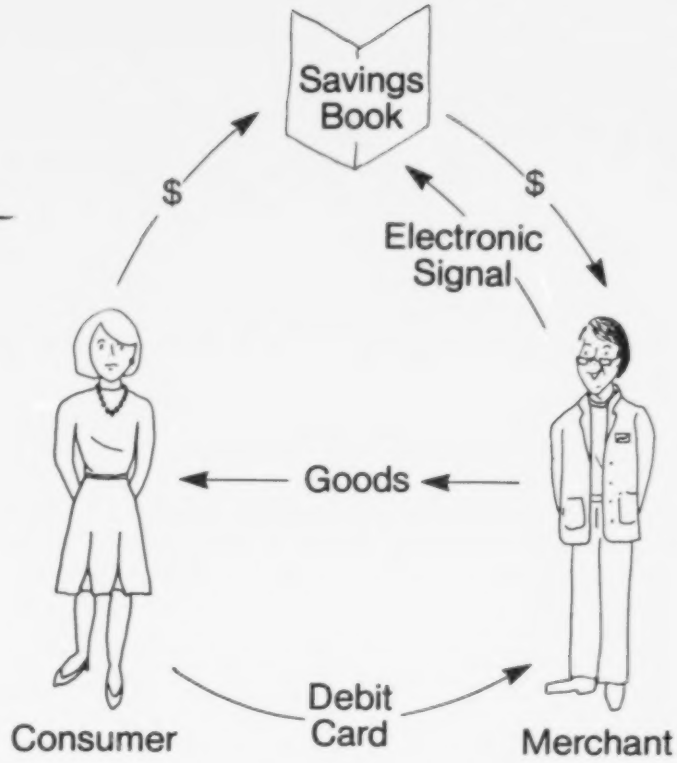
*Different rules apply to debit cards which are used to access checking or saving accounts. The liability for use by an unauthorized person can be up to $500 for such debit cards. The law, Electronic Fund Transfers Act, is found at 15 United States Code, Section 1601; Regulation E, 12 Code of Federal Regulations, Section 205.

Credit and Debit Cards

Credit Card



Debit Card



Consumer Protection in Electronic Fund Transfers

Electronic fund transfer (EFT) access devices or "debit cards" have legal protections which are similar but not identical to credit card protections. This reading will briefly outline these differences.

What if I Lose My Debit Card?

If you lose a credit card, your maximum liability is $50. If you lose your debit card, your liability could be as high as $500. Regulation E provides that if your debit card is lost or stolen:

- you are liable for the first $50 of any EFT transaction using your card if you report the loss to the creditor within two business days after your loss or theft.
- you are liable for the first $500 of any EFT transaction using your card if you do not report the loss or theft within two business days.

Also, if you discover an error on your statement, you should promptly notify the financial institution. If you fail to report an unauthorized fund transfer on your periodic statement within 60 days of receiving it, you will be responsible for subsequent unauthorized transfers, if the bank could have stopped those transfers. This potential liability is unlimited.

Therefore, loss or misuse of your debit card carries far greater risks than a credit card. Issuers seek to minimize these risks by using a personal identification number (PIN) and asking that you not carry this code with you. If you have a debit card, it is important to:

1. safeguard any personal code necessary to use the debit card;
2. immediately report the loss or theft of the card; and
3. carefully review your statement from the issuer.

What if There Is an Error In My Statement?

The Electronic Fund Transfers Act has separate procedures for resolving errors.

- You may write, phone, or state orally that you believe there is an error in a statement within 60 days after receipt of the statement.
- The financial institution will investigate and tell you the results within 10 business days, or the institution may recredit your account and notify you within 45 days.
- If the institution determines that there is an error, it must correct the error within one business day after it determines an error has been made.
- If the institution determines that there is no error, it must mail or deliver to you a written explanation within three business days after the investigation.

These procedures are similar to those for error resolution of credit card accounts. The procedures differ in that errors in EFT accounts may be orally reported and resolution is faster than with credit card accounts.

Is It a Credit or Debit Card?

Some plastic cards are both credit and debit cards. For example, if you have a card at a financial institution which enables you to use a bank teller machine and your account has a feature allowing you to write a check to trigger an overdraft loan, your card is both a credit and debit card.

While there are technical rules as to which procedure will apply, the consumer must assume that if a card is lost, an unauthorized user could gain access to the account. The consumer should therefore report the loss or theft immediately, but in no event later than two business days.

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